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ESG Disclosure and Earnings Management: Do Board Gender Diversity and Management Credibility Matter?

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Abstract: This research aims to determine the effect of Environmental, Social, and Governance (ESG) disclosure on earnings management, with board gender diversity and management credibility as moderating variables. The study examines non-financial companies listed on the Indonesia Stock Exchange from 2021 to 2023. Using purposive sampling, 135 firm-year observations were obtained. The Modified Jones Model was employed to measure earnings management. The annual ESG Index was employed to measure ESG disclosure. Agency Theory, Stakeholder Theory, and Upper-Echelon Theory were used to provide the theoritical basis for intepreting the findings. To accomplish the intended objectives of the research, this research uses panel data regression models and Moderated Regression Analysis (MRA). The findings indicate that ESG disclosure negatively influences earnings management. Additionally, management credibility moderates this relationship by weakening the negative effect of ESG disclosure on earnings management. In contrast, board gender diversity does not significantly moderate the relationship.

Keywords: Earnings Management, ESG, Board Gender Diversity, Management Credibility.

INTRODUCTION

This study aims to examine the effect of Environmental, Social, and Governance (ESG) disclosure on earnings management, with board gender diversity and managerial credibility as moderating variables during the period 2021–2023. The issue of earnings management has garnered significant attention, particularly following the collapse of several international corporation in the global market (Al-begali & Phua, 2023b; Ghaleb et al., 2021; Githaiga et al., 2022). In Indonesia, evidence of earnings management practices can be seen in the case of PT Indofarma Tbk., which allegedly engaged in fraudulent activities such as window dressing in its financial statements, as reported in the Summary of Audit Results (IHPS) II 2023 by the Audit Board of Indonesia (BPK) (Kontan.co.id, 2024). Another case involves PT Waskita Karya Tbk., whose management is suspected of manipulating financial statements since 2016—a matter currently under investigation by the Financial and Development Supervisory

Agency (BPKP) (Bloomberg, 2023). These cases highlight earnings management as a critical issue in the context of financial statement transparency, underscoring the need to protect investors from misleading information provided by company management (Dwijayanti & Wijaya, 2020).

This research adopts agency theory as the grand theory to explain the motivations behind earnings management. Within the framework of this theory, earnings management can arise from conflicts of interest between managers acting as agents and shareholders as principals (Al-begali & Phua, 2023a; Atmadja et al., 2024; Jensen & Meckling, 1976; Musa et al., 2023). In addition, this study employs stakeholder theory as a supporting theory. Stakeholder theory posits that a company's performance is influenced by various stakeholders; therefore, corporate management is not only accountable to investors and creditors but also to stakeholders with non-financial interests (Dharmawan et al., 2024; Freeman, 1984; Gerged et al., 2023; Velte, 2019; Werastuti et al., 2022). Consequently, companies are encouraged to be more transparent by disclosing both financial and non-financial information, thereby reducing information asymmetry (Alessa et al., 2024).

ESG disclosure represents an enhancement of corporate social responsibility reporting that reflects a company's performance and commitment in relation to environmental, social, and governance aspects. (Albitar et al., 2020). Currently, ESG aspects have become a focal point for investors in making investment decisions (Purnamawati & Dautrey, 2025). According to data from the MSCI Global Survey, ESG-based investments in Asia increased by up to 79% in 2021 (MSCI, 2021). Indonesia is among the countries that have adopted the ESG concept; however, ESG implementation by companies in Indonesia remains suboptimal. Based on a survey conducted by the Indonesia Business Council for Sustainable Development (IBCSD) in 2021, the ESG index of Indonesia's capital market ranked only 36th out of 47 global capital markets—below the Philippines, Singapore, Malaysia, Thailand, and India—with a disclosure level below 50% (Liputan6.com, 2022). The IBCSD survey also revealed that 40% of companies in Indonesia still lack awareness of the importance of ESG implementation (Rahmaniati & Ekawati, 2024).

Previous studies have extensively linked earnings management practices to corporate social responsibility, as evidenced in the research conducted by Gonçalves et al. (2021); Kim et al. (2018); Palacios-Manzano et al. (2021); Santoso et al. (2023). Nevertheless, to the best of our knowledge, studies examining the relationship between earnings management and the advancement of CSR practices—specifically ESG disclosure—remain limited in the context of Indonesian companies. Therefore, this study uses ESG disclosure as the independent variable to examine its effect on earnings management.

Previous studies examining the relationship between earnings management and corporate social responsibility have produced inconsistent results.Gerged et al. (2023); Ghaleb et al. (2021); and Palacios-Manzano et al. (2021) found that corporate social responsibility negatively associated with earnings management. This indicates that firms actively involved in corporate social responsibility initiatives are less likely to participate in earnings management practices. In contrast, other studies, such as those by Almubarak et al. (2023); Habbash & Haddad (2019); and Wahyuningsih & Rasmini (2020) present contrasting findings, indicating that corporate social responsibility has a positive influence on earnings management. These results imply that some companies may actively engage in corporate social responsibility initiatives as a means to obscure earnings management practices carried out by management.

These inconsistent findings suggest that the link between corporate social responsibility and earnings management may be contingent upon the influence of other variables. This study introduces board gender diversity and managerial credibility as moderating variables that are expected to influence the link between social responcibility activities and earnings management. This argument is grounded in upper echelons theory, which posits that

managerial decision-making is shaped by various factors such as experience, values, and personality traits (Hambrick & Mason, 1984; Musa et al., 2023).

Earnings management refers to actions taken by management through the selection of accounting judgments in financial reporting to alter financial statements and present financial information that does not reflect the company's actual performance (Almubarak et al., 2023; Dimitropoulos, 2022; Purnamawati & Hatane, 2022). Earnings management is generally classified into two categories: accrual-based earnings management and real earnings management (Fitrasari, 2023). Accrual-based earnings management involves adjustments to financial reports through modifications of accrual accounts (Anh & Khuong, 2022). While, real earnings management is carried out through manipulation of actual business activities (Al-begali & Phua, 2023a). Under the lens of agency theory, earnings management may occur due to misaligned objectives between corporate managers and company owners, compounded by the presence of information asymmetry (Ghaleb et al., 2021). These issues can be mitigated through enhanced corporate transparency (Dharmawan et al., 2024; Li & Thibodeau, 2019). According to stakeholder theory, a company's performance is influenced by various stakeholders, and thus the company bears responsibility not only to investors and creditors, but also to stakeholders with non-financial interests (Freeman, 1984; Mahrani & Soewarno, 2018; Velte, 2019). To meet these stakeholders' expectations, companies are encouraged to provide transparent financial and non-financial disclosures and avoid engaging in illegal practices (Alessa et al., 2024).

ESG disclosure reflects a company's transparency and commitment to maintaining long-term relationships with stakeholders (Palacios-Manzano et al., 2021). ESG disclosure can also enhance the quality of reported financial information, thereby reducing information asymmetry (Ghaleb et al., 2021). Companies that are actively engaged in disclosing their ESG activities tend to reduce management's tendency to engage in illegal practices that could damage stakeholder relationships and instead act more transparently in providing information (Kolsi et al., 2023; Werastuti et al., 2023). This is consistent with the findings of Kumala & Siregar (2019) who reported that corporate social responsibility negatively influences earnings management. Similarly, Dimitropoulos (2022) and Gerged et al. (2023) found that companies actively engaged in social responsibility activities are more likely to avoid earnings management practices. Based on the above discussion, the following hypothesis is proposed:
H_1: ESG disclosure has a negative effect on earnings management.

The upper-echelon theory posits that the experiences, values, and personalities of a company's executives influence their interpretation of certain situations, which in turn affects the decisions they make (Hambrick & Mason, 1984). Board gender diversity as a component of corporate governance, refers to the presence of women on the board of directors and is associated with the personality aspects of executives (Taufik, 2021). Female directors are generally perceived to be more conservative and less likely to take risks compared to their male counterparts. As a result, they are less inclined to engage in risky practices such as earnings management (Alves, 2023; Orazalin, 2020). This is consistent with the findings of Anh & Khuong (2022) who found that female representation on corporate boards is negatively associated with accrual-based earnings management. Similarly, Orazalin (2020) found that companies with a higher proportion of female directors are associated with lower levels of earnings management.

Female directors also tend to behave more ethically and are more sensitive to social issues than male directors, which allows them to contribute more meaningfully to decision-making processes (Alves, 2023). Therefore, the presence of women on the board of directors can serve as an effective governance mechanism for enhancing corporate disclosure practices (Zalata & Abdelfattah, 2021). Supporting this, Putri & Nasih (2022) found that the presence of women

on the board improves the transparency of ESG disclosure practices. Moreover, Ghaleb et al. (2021) showed that board gender diversity can moderate the effect of CSR on earnings management. This implies that female board representation may enhance a company's ESG disclosure, which in turn fosters greater transparency and helps mitigate earnings management. In accordance with the preceding discussion, the following hypothesis is proposed:

H_2: Board gender diversity strengthens the negative effect of ESG disclosure on earnings management.

The upper-echelon theory posits that the specific characteristics of management play a crucial role in corporate management and strategic decision-making, including financial reporting (Al-begali & Phua, 2023a). One important and relevant managerial characteristic is management credibility, which refers to the extent to which top management—those responsible for corporate disclosure policies—is perceived as trustworthy by stakeholders (Santoso et al., 2023). This credibility can be observed through the level of education and knowledge possessed by the board of directors, particularly in accounting and finance (Al-begali & Phua, 2023a). Age is also a specific characteristic that supports management credibility, as it is closely related to ethical behavior (Al-begali & Phua, 2023a).

Senior managers are considered to pay more attention to norms and traditions compared to younger managers, making them more likely to comply with applicable regulations ((Le et al., 2020). Furthermore, top management with adequate knowledge and education tends to have a deeper understanding of financial reporting, thus reducing the likelihood of earnings manipulation (Githaiga et al., 2022). This is supported by the findings of Riyadh et al. (2024), which show that directors with financial expertise negatively affect earnings management practices. Additionally, studies by Fitriasari & Soewarno (2024) and Harjoto et al. (2019) found that directors with high levels of knowledge and experience positively contribute to the improvement of corporate social responsibility disclosure practices. Moreover, Santoso et al. (2023) found that management credibility—including factors such as education level, knowledge, and age—moderates the effect of CSR disclosure on earnings management. Based on the above explanation, the following hypothesis is proposed:

H_3: Management credibility strengthens the negative effect of ESG disclosure on earnings management.

METHODS

This study employs a quantitative associative approach to examine the causal relationship between ESG disclosure and earnings management, with board gender diversity and management credibility as moderating variables. The population of this research includes all non-financial sector companies listed on the Indonesia Stock Exchange (IDX) from 2021 to 2023. The sampling method used in this study is purposive sampling. The criteria for selecting the sample companies are as follows: a) Non-financial sector companies listed on the IDX consistently from 2021 to 2023; b) Non-financial sector companies that have an ESG Score available in the Refinitiv Thomson Reuters database; c) Non-financial sector companies that have published annual reports, financial statements, and sustainability reports consistently from 2021 to 2023, and these documents are accessible. Based on these criteria, the final sample consists of 45 companies, resulting in a total of 135 firm-year observations.

The dependent variable in this study is earnings management. This research uses accrual-based earnings management as a proxy for earnings management, as it is more commonly employed by management due to its ease of implementation (Na et al., 2023). Accrual-based earnings management is assessed using the Modified Jones Model developed by Dechow et al. (1995). The Modified Jones Model is used because it is considered to have the strongest explanatory power in detecting earnings management (Dechow et al., 1995). The model

estimates total accruals (TAC) as a regression on three variables: change in revenue (ΔREV), change in receivables (ΔREC), and property, plant, and equipment (PPE) (Alves, 2023).

The independent variable in this study is ESG disclosure. The moderating variables are board gender diversity and management credibility. The control variables used in this research include firm size (SIZE), leverage (LEV), profitability (ROA), and firm growth (GROWTH). The measurements of each research variable are defined as follows.

Table 1. Measurment of Variables

Variable	Measurement	Source
Earnings Management	$TAC_{it} = N_{it} - CFO_{it}$ $\frac{TAC_{it}}{A_{it-1}} = \beta_1 \frac{1}{A_{it-1}} + \beta_2 \frac{(\Delta REV_{it} - \Delta REC_{it})}{A_{it-1}} + \beta_3 \frac{PPE_{it}}{A_{it-1}} + \varepsilon$ $NDA_{it} = \beta_1 \frac{1}{A_{it-1}} + \beta_2 \frac{(\Delta REV_{it} - \Delta REC_{it})}{A_{it-1}} + \beta_3 \frac{PPE_{it}}{A_{it-1}} + \varepsilon$ $DA_{it} = \frac{TAC_{it}}{A_{it-1}} - NDA_{it}$	Al-begali & Phua (2023b); Fitrasari, (2023); Garfatta et al. (2023)
ESG Disclosure	ESG Score from the Thomson Reuters – Eikon database	Kolsi et al., (2023) and Velte (2019)
Board Gender Diversity	$BGD = \frac{\text{Numbers of Female Directors}}{\text{Numbers of Directors}} \times 100\%$	Ghaleb et al. (2021); Githaiga et al. (2022); Taufik (2021)
Management Credibility	MC = 1/4 (AG + GM + KP + PE)	Santoso et al. (2023)
SIZE	SIZE = ln (Total Assets)	Al-begali & Phua (2023a), Ghaleb et al. (2021) and Werastuti et al. (2023)
LEV	$LEV = \frac{\text{Total Debts}}{\text{Total Assets}}$	Al-begali & Phua (2023a), Ghaleb et al. (2021) and Werastuti et al. (2023)
ROA	$ROA = \frac{\text{Net Income}}{\text{Total Assets}}$	Al-begali & Phua (2023a), Ghaleb et al. (2021) and Werastuti et al. (2023)
GROWTH	$GROWTH = \frac{\text{Market Value}}{\text{Book Value}}$	Al-begali & Phua (2023a) and Ghaleb et al. (2021)

The data analysis technique used in this study is panel data regression and Moderated Regression Analysis (MRA), performed using STATA software. The regression model equations are presented as follows.

$$Y = \alpha + \beta_1 X + \beta_2 XZ_1 + \beta_3 XZ_2 + \beta_4 SIZE + \beta_5 LEV + \beta_5 ROA + \beta_5 GROWTH + \varepsilon$$

RESULTS AND DISCUSSION

Table 2 presents the results of the descriptive statistical analysis, which provides an overview of the sample data based on the minimum and maximum values, mean, and standard deviation.

Table 2. Descriptive Statistic

	N	Minimum	Maximum	Mean	Std. Deviation
Earnings Management	135	-0.16	0.60	0.13	0.15
ESG Disclosure	135	10.04	87.60	50.07	19.28
Board Gender Diversity	135	0.00	0.57	0.18	0.17
Management Credibility	135	0.25	0.63	0.44	0.07
SIZE	135	28.69	33.73	31.41	1.05
LEV	135	0.08	0.99	0.45	0.21
ROA	135	-0.10	0.45	0.08	0.08
GROWTH	135	0.16	147.07	3.74	13.86

Source: STATA Output Results

Based on the descriptive statistic, The Earnings Management variable shows a minimum value of -0.16, recorded by PT Matahari Department Store Tbk in 2023. On the other hand, the maximum value is 0.60, recorded by PT Indo Tambangraya Megah in 2022. The mean value of the earnings management variable is 0.13, which is lower than the standard deviation of 0.1491152. This suggests that there is high variability in the earnings management data.

The ESG Disclosure variable has a minimum value of 10.04, recorded by PT Link Net Tbk in 2021. The maximum value is 87.60, recorded by PT Vale Indonesia Tbk in 2023, The mean value of the ESG disclosure variable is 50.07, which is higher than the standard deviation of 19.28. This suggests that the ESG disclosure data exhibits relatively low variability.

The Board Gender Diversity variable has a minimum value of 0, recorded by several companies such as PT Astra Agro Lestari Tbk, PT Adaro Energy Indonesia Tbk, PT Adi Sarana Armada Tbk, PT Gudang Garam Tbk, PT Indah Kiat Pulp & Paper Tbk, PT Indocement Tunggal Prakarsa Tbk, PT Link Net Tbk, and PT Tower Bersama Infrastructure Tbk. The maximum value is 0.57, recorded by PT Media Nusantara Citra Tbk. The mean value of the Board Gender Diversity variable is 0.18, which is higher than the standard deviation of 0.17. This implies that there is not a wide variation in the gender diversity data.

The Management Credibility variable has a minimum value of 0.25, recorded by PT Quantum Clovera Investama Tbk in 2023. The maximum value is 0.625, recorded by PT Semen Indonesia (Persero) Tbk in 2021The mean value of the Management Credibility variable is 0.44, which is higher than the standard deviation of 0.07. This indicates that there is not a significant variation in the Management Credibility data.

In selecting the appropriate panel data regression model, three approaches can be used to determine the most suitable model estimation, namely the Chow test, Hausman test, and Lagrange Multiplier test (Ghozali & Ratmono, 2013). The results of the model selection tests are presented in Table 3.

Table 3. Analysis of The Best Model Selection

Test	Standards	Results	Selected Model
Chow Test	Prob Cross Section > 0,05 (CEM) Prob Cross Section < 0,05 (FEM)	0.0051	Fixed Effect Model
Hausman Test	Prob chi2 < 0,05 (FEM) Prob chi2 > 0,05 (REM)	0.0001	Fixed Effect Model
Lagrange Multiplier Test	Prob chi2 < 0,05 (REM) Prob chi2 > 0,05 (CEM)	0.1879	Common Effect Model

Source: STATA Output Results

Based on the results of the panel data model selection tests, the Fixed Effects Model (FEM) was identified as the most appropriate model for this study.

This study conducted classical assumption tests. In panel data regression models that use the Ordinary Least Squares (OLS) method, not all classical assumption tests are applied; however, this method is still utilized (Ghozali, 2013). When the model used is either the

Common Effect Model (CEM) or the Fixed Effect Model (FEM), only heteroscedasticity and multicollinearity tests are typically performed (Gujarati & Porter, 2009:598). Accordingly, this study conducted classical assumption tests including heteroscedasticity and multicollinearity tests.

The multicollinearity test is conducted to determine whether correlations exist among the independent variables within the regression model (Ghozali, 2018:107). The results of the multicollinearity test are presented in Table 4.

Table 4. Multicollinearity Test

Variable	VIF	1/VIF
Earnings Management	1.50	0.667793
ESG Disclosure	1.18	0.849839
Board Gender Diversity	1.09	0.916700
Management Credibility	1.36	0.733038
SIZE	1.31	0.765623
LEV	1.38	0.727090
ROA	1.47	0.681560

Source: STATA Output Results

A regression model is considered free from multicollinearity if it has a tolerance value greater than 0.1 or a Variance Inflation Factor (VIF) value less than 10 (Ghozali, 2018:108). The test results indicate that none of the variables have a VIF value exceeding 10. Thus, the regression model is confirmed to be free from multicollinearity.

The heteroscedasticity test is conducted determine whether the residuals exhibit unequal variance across observations in the regression model. The test results are presented in Table 5.

Table 5. Heteroscedasticity Test

Description	Value
Chi2 (1)	29782.91
Prob > Chi2	0.0000

Source: STATA Output Results

A regression equation is free from heteroscedasticity if the significance value of the Chi-square probability is greater than the 5% significance level or 0.05 (Gujarati & Porter, 2009:386). Based on the test results, the probability value is 0.0000, which is lower than the 0.05 significance level. Therefore, the results indicate the presence of a heteroscedasticity problem in the regression equation.

Based on the results of the classical assumption tests, the regression model employed in this study was found to exhibit heteroscedasticity. To address this issue, the data were processed using a regression model with robust standard errors (Gujarati & Porter, 2009:391). Subsequently, panel data regression was carried out using the Moderated Regression Analysis (MRA) model, with the results presented in Table 6.

Table 6. Hypothesis Test Results

Earnings Management	Coefficient	Robust Standard Error	t	Prob. T
ESG	-0.0133344	0.0032857	-4.06	0.000
ESG_BGD	-0.0005727	0.0018304	-0.31	0.756
ESG_MC	0.0269707	0.0068447	3.94	0.000
SIZE	0.0854637	0.0758578	1.13	0.266
LEV	0.0720347	0.2402723	0.30	0.766
ROA	1.679073	0.3627794	4.63	0.000
GROWTH	0.0001127	0.0003588	0.31	0.755

Const.	-2.646833	2.397543	-1.10	0.276
R Squared	0.3004			
F Statistik	13.43			
Prob. F	0.0000			
Number of Obs	135			

Source: STATA Output Results

Based on the F-test, the F-statistic value is 13.43 with a probability of 0.0000. Since the probability value is below the 0.05 significance threshold, these results indicate that the regression model is appropriate for use, and that the independent variables collectively exert a significant influence on earnings management.

In this study, the R^2 value is 0.3004, indicating that 30.04% of the variation in earnings management can be explained by the variables used in this. Meanwhile, the remaining 69.96% is explained by other variables not included in the research model.

ESG Disclosure and Earnings Management

The results of the statistical analysis reveal that ESG disclosure has a negative and significant effect on earnings management, as evidenced by a probability value of 0.000 and a coefficient of –0.0133344. Accordingly, the first hypothesis of the study is supported, indicating that higher ESG disclosure corresponds to a reduction in earnings management. This result is consistent with the findings of Kolsi et al. (2023) and Velte (2019) who a negative association between ESG and earnings management.

These findings can be explained through agency theory and stakeholder theory. Agency theory suggests that earnings earnings management may occur due to misaligned objectives between corporate managers and company owners, compounded by the presence of information asymmetry (Ghaleb et al., 2021). From the perspective of stakeholder theory, corporate management seeks to meet stakeholders' expectations (Mahrani & Soewarno, 2018). To meet these stakeholders' expectations, companies are encouraged to provide transparent financial and non-financial information and avoid engaging in illegal practices (Alessa et al., 2024).

ESG disclosure reflects a company's transparency in financial reporting (Palacios-Manzano et al., 2021). Through ESG disclosure, companies are encouraged to be more transparent in their financial reporting, which helps reduce information asymmetry (Gerged et al., 2023). Furthermore, companies actively engaged in social responsibility initiatives are more likely to prioritize long-term relationships with stakeholders and reduce the tendency of management to engage in illegal actions such as earnings management, which could negatively impact stakeholders (Dimitropoulos, 2022; Ghaleb et al., 2021).

Moderating Role of Board Gender Diversity on ESG Disclosure and Earnings Management

The hypothesis test result showed that interaction between ESG Disclosure and board gender diversity has no effect on earnings management, as shown by a probability value of 0.756. Thus second hypothesis of this study is rejected, indicating that board gender diversity does not moderate the relationship of ESG disclosure on earnings management. This result aligns with the studies conducted by Arioglu (2020) and Le & Nguyen (2023) which found that gender diversity is not associated with earnings management. It also supports the findings of Werastuti et al. (2022) who concluded that the presence of women on boards is not related to social responsibility activities.

These findings contrast with the upper-echelon theory and studies such as Ghaleb et al. (2021) who argued that board gender diversity can moderate the relationship between corporate social responsibility and earnings management, and Anh & Khuong (2022) who found that

female representation on boards negatively affects accrual earnings management. The divergence in results may be due to different social contexts. For instance Ghaleb et al. (2021) noted that gender diversity issues have received significant governmental attention in Jordan, while Anh & Khuong (2022) highlighted that Vietnam is among developing countries with strong corporate governance practices.

The insignificant findings in this study may be explained by the low implementation of gender diversity policies in Indonesian companies. Data analysis shows that the average female representation on boards among sampled companies is only 18% of the total board members. The insignificant result can also be explained by the critical mass hypothesis, which states that at least three female directors are needed to influence decision-making (Alves, 2023). According to a report by Deloitte, the percentage of female directors in Indonesia in 2023 was only 9.7% of the total number of directors (Deloitte, 2024). Therefore, women are unable to fully perform their supervisory roles, as they have not yet reached the critical mass, and final decision-making is influenced by the greater number of male directors (Le & Nguyen, 2023)

These insignificant results may be influenced by aspects of organizational culture. Arioglu (2020) explains that in countries adhering to patriarchal concepts, the opinions of female directors tend to be overlooked, and strategic decision-making is predominantly centered around male directors. Currently, Indonesian corporate boards are still male-dominated, and there is a prevailing perception that key decision-making is a male prerogative, with men seen as the heads of entities (Werastuti et al., 2022). Due to this perception and dominance, female board members' perspectives tend to have limited impact on decision-making (Alves, 2023).

Moderating Role of Management Credibility on ESG Disclosure and Earnings Management

The hypothesis test result showed that interaction between ESG Disclosure and management credibility positively affects earnings management as indicated by a probability value of 0.000 and a coefficient of 0.0269707. The positive sign indicates that management credibility moderates by weakening the negative influence of ESG disclosure on earnings management. Therefore, the third hypothesis of this study is rejected. This finding is consistent with studies by Mardianto et al. (2024) and Ngo & Nguyen (2024) which found that management with accounting knowledge tends to increase earnings management practices. It also aligns with Almubarak et al. (2023) who found that managers with an understanding of regulations are more likely to comply with ESG disclosure requirements to gain legitimacy from stakeholders and to conceal the earnings management practices being carried out..

According to upper-echelon theory, the experience of board members affects decision-making related to corporate financial reporting, leading companies to comply with ESG-related regulations (Al-begali & Phua, 2023a; Hambrick & Mason, 1984). However, it also implies that experienced management possesses the technical ability to make decisions related to earnings management (Mardianto et al., 2024).

Credible management typically has a deeper understanding of prevailing regulations, which can support the company in complying with those rules and enhancing ESG disclosure (Al-begali & Phua, 2023a). However, on the other hand, management with expertise in accounting and finance also possesses the technical skills and strategies to make adjustments in financial statements, particularly through accrual-based accounts (Ngo & Nguyen, 2024). Thus, experienced and financially literate management may utilize ESG disclosure as a tool to gain legitimacy while simultaneously masking earnings management practices (Almubarak et al., 2023). Managers may also utilize ESG reporting as a shielding strategy to anticipate dissatisfaction when they make adjustments to the company's earning (Wahyuningsih & Rasmini, 2020)

CONCLUSION

The research findings show that ESG disclosure has a negative effect on earnings management. Companies that actively engage in ESG disclosure reflect transparency in providing financial information and prioritize long-term relationships with stakeholders, thus tending to avoid earnings management. The results also show that board gender diversity does not moderate the relationship of ESG disclosure on earnings management, due to the still low representation of women on boards of directors, limiting their influence in decision-making processes. Furthermore, management credibility weakens the negative effect of ESG disclosure on earnings management. Managers with adequate experience and knowledge tend to comply with ESG regulations to maintain stakeholder relations, but also possess the capability in financial reporting and may utilize ESG as a tool to obscure earnings management practices.

This study has several limitations. First, earnings management is measured solely using accrual-based proxies. However, in practice, earnings management can be assessed through both accrual-based and real activities-based approaches. Future research is encouraged to incorporate real earnings management measures into the regression model and compare the findings with those derived from accrual-based proxies, in order to offer a more comprehensive understanding of earnings management practices. Second, this research focuses only on companies that have ESG scores provided by the Thomson-Reuters data provider from 2021 to 2023. Future studies could examine a longer observation period to increase the sample size and improve the generalizability and relevance of the findings for decision-making.

This research also has several implications. The theoretical implication is that the study supports agency theory and stakeholder theory. These theories are supported by the finding that ESG disclosure negatively affects earnings management. This research also supports upper-echelon theory, showing that management expertise and experience influence corporate financial reporting. Furthermore, the findings contribute to the literature addressing inconsistencies in the relationship between ESG disclosure and earnings management by showing that moderation variables such as management credibility can influence the direction and strength of this relationship.

There are also practical implications. First, the research findings indicate that an increase in ESG reporting can mitigate earnings management practices carried out by companies. Therefore, policymakers are expected to encourage broader implementation of ESG as a means to curb earnings management. Government initiatives to support ESG adoption may include offering incentives, such as streamlined licensing processes and easier access to financing, for companies that focus on green and sustainable projects, as well as conducting outreach and education on the importance of ESG implementation.

ESG also reflects a company's transparency in its operational activities and helps reduce the tendency to engage in illegal actions, such as earnings management. Therefore, stakeholders such as investors and creditors are advised to pay close attention to a company’s ESG implementation, as it can lead to more accurate and informed decision-making.

Second, the study finds that the role of women directors in corporate governance remains limited. The representation of women on the board of directors can enhance corporate reporting practices, as they can serve as monitors of corporate governance practices. This should inform policymakers and stakeholders to promote the implementation of gender quota policies on boards to enhance the effectiveness of women’s roles in decision-making and corporate governance monitoring.

Finally, the study shows that managers with expertise and experience may also use ESG disclosure as a tool to obscure the earnings management they engage in. Therefore, stakeholders and policymakers need to strengthen oversight of board performance by monitoring earnings management indicators and formulating guidelines to ensure ESG practices are based on genuine, substantive actions.

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