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The Impact of ESG Performance on Earnings Management: A Review of Corporate Governance and Gender Diversity in Indonesia

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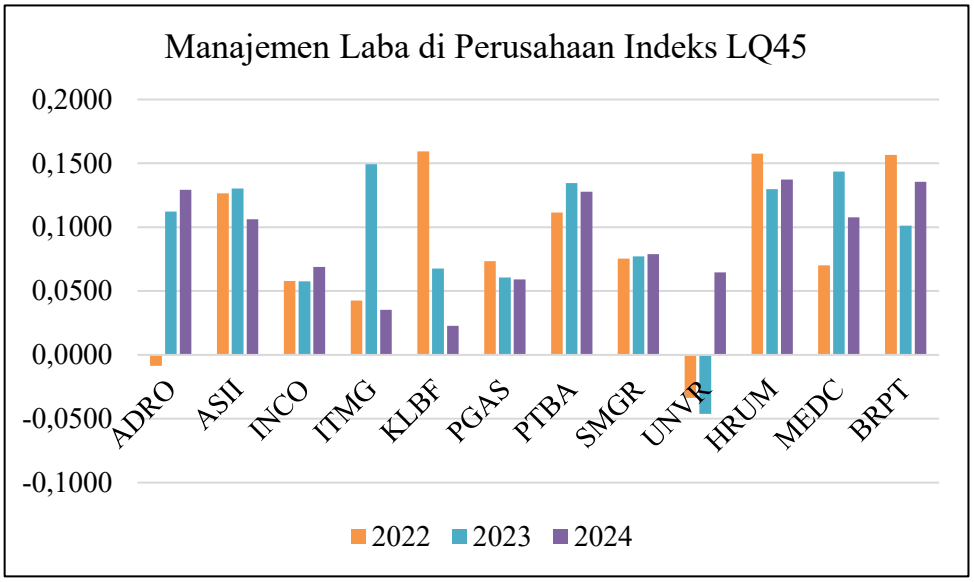
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ABSTRACT
This study assesses how ESG performance relates to earnings management practices, with board gender diversity expected to moderate the relationship. Profitability and leverage are included as control variables to isolate the effect of the main variables under investigation. Unlike previous studies that focus broadly on corporate social responsibility, this research provides a new contribution by specifically isolating ESG metrics and evaluating the critical mass of female board representation in an emerging market context. Using a quantitative approach, data from 12 non-financial LQ45 listed companies over 2022–2024 were analysed through purposive sampling, yielding 36 observations. Moderated Regression Analysis (MRA) via EViews 13 was applied. Findings indicate that ESG performance does not significantly affect earnings management. Board gender diversity likewise fails to moderate this relationship. Both control variables produced insignificant results. These outcomes suggest that ESG disclosures among sampled firms remain largely performative (masking hypothesis), while the limited representation of female commissioners has yet to accumulate sufficient institutional influence to effectively constrain managerial opportunism.

INTRODUCTION

Market dynamics have placed large-scale companies listed on the LQ45 index under pressure due to high public expectations. Companies in this index are the focus of attention for investors, creditors and regulators as they are considered to represent issuers with the highest levels of liquidity and market capitalisation. These conditions encourage management to maintain a consistent image of the company's performance, including through discretionary accounting policies. The pressure to meet profit targets and maintain share price stability often triggers earnings management practices, particularly when the company's fundamental performance is unable to meet market expectations naturally (Primacintya & Kusuma, 2025). This phenomenon indicates the existence of managerial pressure that can affect the quality of financial reporting by public companies.

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Source: www.idx.co.id (Data compiled, 2026)

Figure 1. Earnings Management of LQ45 Index Companies at 2022–2024

Earnings management practices are reflected in changes in discretionary accruals, which are proxied using the Modified Jones Model. Positive discretionary accruals indicate an increase in income, whilst negative values indicate a decrease in income. Among companies in the LQ45 index for the 2022–2024 period, fluctuations in discretionary accruals were found, indicating managerial intervention in the financial reporting process. For example, PT Kalbe Farma Tbk, PT Harum Energy Tbk, and PT Barito Pacific Tbk showed a trend of income increasing in 2022. Conversely, PT Unilever Indonesia Tbk exhibited a pattern of income decreasing, reflecting a more conservative reporting approach. These findings indicate that profit manipulation remains a common phenomenon among large companies in the Indonesian capital market.

This phenomenon has been strengthened by alleged cases of financial statement fraud at state-owned construction companies, such as PT Waskita Karya (Persero) Tbk and PT Wijaya Karya (Persero) Tbk. Debt pressures and demands to complete strategic projects have driven companies to use accrual policies to improve the appearance of their financial statements. This practice has resulted in liquidity pressures and a decline in investor confidence in the quality of the companies' profits (CNN Indonesia, 2023). These cases demonstrate that poor-quality financial reporting can pose significant risks to stakeholders, as the information provided does not reflect the company's actual condition.

Study is anchored in stakeholder theory, which argues that firms must give priority to the interests of every party affected by their actions including investors, creditors, regulators, the local community, and the natural environment. According to this view, organizations are expected to deliver transparent and reliable data to safeguard their legitimacy and maintain the confidence of stakeholders. A practical way to satisfy this duty is by publishing Environmental, Social, and Governance (ESG) reports. Companies that exhibit a strong ESG commitment are perceived to focus more on sustainable business practices and corporate ethics, and as a result they are less prone to engage in opportunistic behaviors such as earnings management (Primacintya & Kusuma, 2025).

The enforcement of Financial Services Authority (OJK) regulation under POJK No. 51/POJK.03/2017 reinforces the adoption of ESG by mandating listed firms to systematically

develop sustainability reports as a means of providing openness to stakeholders. Applying the lens of stakeholder theory, ESG reporting serves as an essential mechanism to minimize information imbalances while establishing corporate legitimacy among investors, creditors, government bodies, and the broader public. Enhanced transparency in ESG matters is anticipated to illustrate that the organization does not concentrate exclusively on immediate financial gains but also meets its ethical and societal obligations toward preserving the sustainability of its operational surroundings. Handayati et al. (2025) state that sustainability disclosure is a form of fulfilling stakeholders' right to information, making the company's financial reporting quality more reliable. This argument aligns with Tanujaya & Dharmawan (2025), who explain that non-financial information disclosure through ESG is a managerial strategy to maintain legitimacy amidst increasingly strict public scrutiny.

The relationship between ESG implementation and earnings quality has become a critical issue in financial reporting practices. High ESG performance is viewed as capable of suppressing managerial opportunistic behavior because companies tend to safeguard their reputation and the integrity of their financial reporting before stakeholders. Githaiga (2024) and Primacintya & Kusuma (2025) shows that companies with superior ESG performance tend to refrain from engaging in earnings management activities. Liu (2025) explains that corporate investments in ESG can reduce managerial myopia and encourage management to be more oriented towards long-term sustainability rather than momentary profit achievements. ESG transparency also facilitates stakeholders in evaluating the reliability of earnings information, thereby minimizing the opportunities for accrual manipulation.

Nevertheless, scholarly outcomes examining the link between ESG and earnings management continue to show mixed results. Almubarak et al. (2023) emonstrated that when companies experience financial difficulty, ESG reporting actually exerts a favorable influence on earnings management tactics. This outcome implies that organizations under financial strain tend to leverage ESG as a legitimacy tactic to safeguard their public image. This pattern is referred to as the masking hypothesis, a scenario in which sustainability reports serve as a cover for poor earnings quality. Ningsih et al. (2023) similarly determined that firms involved in earnings management are inclined to amplify their sustainability disclosures as a strategy to enhance corporate social legitimacy. This indicates that the extent of ESG reporting may not necessarily correspond to the actual reliability of the company's financial statements.

Contradictory results indicate that the ability of ESG to restrain earnings management practices probably depends on the strength of a firm's internal oversight mechanisms. Within Indonesia's dual-tier governance framework, the board of commissioners bears the principal responsibility of supervising the board of directors' decisions and guaranteeing the openness of corporate information to stakeholders. The composition of the board of commissioners, particularly in terms of gender diversity, is considered an essential element of effective corporate monitoring. Primacintya & Kusuma (2025) argue that having female representation in supervisory positions can reinforce the inverse relationship between ESG performance and earnings management. Female participation on the board is thought to improve ethical awareness, oversight effectiveness, and adherence to financial reporting requirements (Kristianti, 2023). Githaiga (2024) additionally notes that a board comprising diverse members performs more efficiently in identifying managers' opportunistic actions because the deliberation process becomes more rigorous and autonomous.

The stakeholder theory perspective views gender diversity as a representation of broader public interests within the corporate governance structure. The presence of women on the board of commissioners is expected to ensure that ESG commitments are genuinely implemented as a form of ethical corporate responsibility, rather than merely an image-building tool to cover up earnings manipulation. (Fitroni & Feliana, 2022) explain that a board with a more balanced gender proportion tends to pay more attention to the protection of long-term stakeholder rights. The presence of women on the board of commissioners may strengthen the ability of ESG initiatives to promote transparent corporate reporting and discourage opportunistic earnings management, resulting in higher earnings quality.

The phenomenon of earnings management behaviors among LQ45 index firms, the divergent outcomes from prior investigations, and the significance of internal corporate oversight form the basis of this study. This research seeks to investigate whether ESG performance influences earnings management practices and whether gender diversity on the board of commissioners amplifies this connection. This study aims to evaluate the impact of ESG performance on earnings management behaviors and to assess the moderating function of board of commissioners' gender diversity among LQ45 index firms during the 2022–2024 timeframe. Unlike earlier studies, this research focuses on the joint effect of ESG performance and board gender diversity within the context of companies listed in the LQ45 index in Indonesia.

LITERATURE REVIEW

Stakeholder Theory

Stakeholder Theory, formulated by Freeman (1984), asserts that the scope of corporate responsibility is not solely directed at the interests of shareholders but extends to all parties connected to corporate activities, either directly or indirectly, such as investors, employees, regulators, communities, and the environment. The company's ability to build balanced relationships with these stakeholders is a determining factor for long-term business continuity. This healthy relationship can only be realized if the company provides transparent, accountable, and relevant information to narrow the information gap and curb opportunistic managerial behavior, including earnings management.

This theory demands that companies not only focus on gaining financial profit but also align the interests of various parties while considering social dimensions and environmental preservation. If these expectations are not met, the company risks facing public pressure that could threaten its operational continuity (Handayati et al., 2025). Therefore, the implementation of good corporate governance and the disclosure of Environmental, Social, and Governance (ESG) performance act as concrete manifestations of the company's moral commitment to all stakeholders. Consistent ESG commitments reflect corporate integrity and encourage the avoidance of distortive practices in financial reporting (Panjaitan & Suranta, 2024).

In the context of this study, Stakeholder Theory serves as the conceptual foundation in examining the linkage among ESG performance, the board of commissioners' gender composition, and earnings management. High ESG performance is believed to reflect information transparency, which in turn can suppress earnings management practices. A diverse board of commissioners, particularly in terms of gender representation, is expected to strengthen corporate governance practices and better accommodate stakeholder interests.

Earnings Management

Earnings management is a managerial intervention in the preparation of financial reporting by utilizing the flexibility of accounting standards to influence stakeholders' perceptions regarding corporate performance (Nguyen et al., 2024). These opportunistic practices are often driven by motives to meet targets, maintain stock prices, secure bonuses, or avoid debt covenant violations. From the perspective of stakeholder theory, earnings management reflects a failure to fulfill the right to reliable information, thus potentially misleading the economic decisions of external parties and lowering public trust (Handayati et al., 2025).

There are two main approaches to conduct earnings management: through the manipulation of accrual-based accounting policies (accrual earnings management) and the manipulation of real operational activities (real earnings management) (Chouaibi & Zouari, 2021). Both approaches damage earnings quality and the reliability of financial reports. This study utilizes the discretionary accruals proxy from the Modified Jones Model due to its reliability in detecting managerial interventions in accrual components (Atin & Pujiono, 2022). Positive discretionary accruals to increase income (income increasing) and negative accruals to decrease income (income decreasing) represent management strategies.

ESG Performance

A company's equilibrium in handling environmental, social, and governance duties as foundations of sustainability is reflected in its Environmental, Social, and Governance (ESG) Performance. Within stakeholder theory, ESG functions as the main tool to exhibit dedication to safeguarding all connected parties. The environmental dimension emphasizes minimizing the ecological impacts of operations, the social dimension emphasizes relations with local communities and workforce members, while the governance dimension underscores the standard of openness, autonomy, and the efficacy of internal oversight. In Indonesia, the requirement to produce sustainability reports is being rolled out incrementally through OJK regulations (POJK No. 51/POJK.03/2017) to diminish information asymmetry and enable thorough assessments by stakeholders (Ningsih et al., 2023).

Board of Commissioners Gender Diversity

Women’s involvement in supervisory functions within the board of commissioners reflects a commitment to diverse and inclusive corporate governance practices in accordance with stakeholder theory. Within Indonesia's dual-tier board framework, the board of commissioners operates to supervise business activities autonomously. The inclusion of female commissioners is perceived to enhance the quality of oversight and diminish opportunistic behaviors exhibited by management (Primacintya & Kusuma, 2025). Psychologically, female board members are assessed as having higher ethical sensitivity, tending to be conservative, and exercising caution in financial reporting to avoid legal and reputational risks (Kristianti, 2023).

Profitability

Profitability serves as a control variable to guarantee the precision of the analysis concerning the isolated impact of ESG performance on earnings quality without being influenced by fluctuations in actual operational performance. This variable is measured using the Return on Asset (ROA) ratio, which is derived by dividing net income by the company's total assets (Dewi & Dewi, 2025).

Leverage

Leverage describes the proportion of company assets financed through debt. This study uses the Debt to Asset Ratio (DAR) as a measurement indicator, calculated from the ratio between total debt and total corporate assets at the end of the financial year (Primacintya & Kusuma, 2025).

Theoretical Framework

Recent developments indicate that stakeholders require more comprehensive corporate information, including disclosures regarding Environmental, Social, and Governance (ESG) performance in addition to financial data. Transparency through the reporting of this information has become essential for every business entity to maintain public credibility in the face of global competition. Since the implementation of POJK No. 51/POJK.03/2017, listed companies in Indonesia have been required to report their sustainability achievements in stages to promote responsible business practices. Stakeholder Theory, developed by Freeman (1984), explains that a company's responsibilities extend beyond the interests of shareholders alone and must take into account various parties that influence or are influenced by the achievement of the organisation's objectives. Through this approach, the company's focus shifts from merely maximising short-term profits towards creating sustainable value for all elements of its business environment as a whole.

ESG performance reflects a company's strategic commitment to managing the impact of its operations. The environmental pillar reflects a company's responsibility to mitigate the negative impact of its operational activities on natural ecosystems, including carbon emissions management and resource efficiency (Almubarak et al., 2023). The social pillar focuses on creating value for human resources and the community, such as the implementation of occupational health and safety standards and employee diversity policies (Liu, 2025). Meanwhile, the Governance pillar relates to internal systems, the enforcement of business ethics, and an effective board structure to oversee the company's operations in a transparent and accountable manner (Handayati et al., 2025).

The implementation of high ESG performance offers strategic benefits in enhancing a company's legitimacy in the public eye. The disclosure of sustainability information serves as a positive signal regarding a company's level of ethical compliance and constitutes a form of public accountability aimed at reducing information asymmetry (Ningsih et al., 2023; Primacintya & Kusuma, 2025). The availability of transparent information makes it easier for stakeholders to conduct an objective evaluation of the company's actual performance without information barriers. Consequently, this stricter oversight by stakeholders can curb managers' intentions to engage in opportunistic actions, such as earnings management practices that could damage the company's credibility in the capital market.

According to stakeholder theory, companies operate under a social contract that requires them to reconcile the often conflicting interests of investors, employees and society. Managers seeking sustainable success must prioritise the well-being of other parties who contribute to the organisation's success. Failure to manage these expectations risks triggering social backlash that could hinder business continuity (Handayati et al., 2025). Consequently, companies committed to ESG values tend to uphold higher ethical standards and avoid accounting manipulation to maintain long-term relationships (Panjaitan & Suranta, 2024). Earnings management practices, which exploit the flexibility of accounting standards to manipulate profit figures, are viewed as a deviation that misleads stakeholders' economic decisions (Nguyen et al., 2024).

Stakeholder theory also highlights the importance of representing the broader public interest within management ranks, one way being through gender diversity on the board of commissioners. Gender diversity provides a broader perspective in strategic decision-making processes due to differences in leadership styles and ethical values. Psychologically and sociologically, women are often associated with a higher level of ethical sensitivity, so they tend to behave more conservatively and cautiously in the financial reporting process to minimise legal risks and reputational damage (Primacintya & Kusuma, 2025). A heterogeneous board is better equipped to detect conflicts of interest or opportunistic behaviour by managers, which ultimately strengthens oversight, reduces agency costs, and improves the quality of corporate earnings (Githaiga, 2024).

The Impact of ESG Performance on Earnings Management Practices

Stakeholder theory emphasizes that corporate commitment to sustainability practices, particularly ESG performance, can serve as a mechanism for limiting financial statement manipulation. Such engagement can reduce agency costs as management seeks to align corporate policies with the preferences of a broader range of stakeholders. The accounting literature offers two main perspectives in explaining the relationship between earnings management and corporate social commitment. The first perspective suggests the possibility of using ESG practices as a masking tool to conceal actual financial performance, particularly in emerging markets (Almubarak et al., 2023).

The second perspective holds that companies with strong ESG performance are able to reduce the potential for earnings management practices. Companies with strong ESG performance demonstrate a high level of compliance with operational ethical standards. Integrity in the presentation of financial statements is a priority for entities with a strong commitment to social responsibility, as they seek to build a positive reputation in the eyes of the public. Investing in ESG performance in the long term has been shown to mitigate short-term managerial behaviour (managerial myopia), which often triggers profit manipulation in the pursuit of short-term profitability targets (Liu, 2025). Management's focus on sustainability demonstrates an effort to promote stakeholder well-being, whilst profit management practices reflect deviant behaviour that undermines corporate integrity.

In Indonesia, the link between non-financial performance and the reliability of financial reporting is an important issue, particularly in relation to the implementation of the Sustainable Development Goals (SDGs). The enforcement of regulations, including POJK No. 51/POJK.03/2017, encourages financial service institutions and listed companies to disclose sustainability related information. Such disclosure provides an external control mechanism that minimizes information gaps between internal and external stakeholders (Githaiga, 2024). Higher ESG transparency makes it easier for stakeholders to verify the reliability of profit figures and detect any discrepancies in financial reports (Ningsih et al., 2023).

Prior empirical evidence consistently supports the view that firms with robust ESG performance demonstrate lower tendencies to engage in earnings management. Management at ESG oriented companies tends to avoid opportunistic actions in order to protect the corporate reputation that has been built through substantial investment (Primacintya & Kusuma, 2025). A commitment to transparency and business ethics compels management to present high quality financial reports that reflect the entity's actual economic conditions. Based on this line of reasoning, the first hypothesis is formulated as follows:

H1: ESG performance has a negative impact on earnings management practices.

The Influence of Gender Diversity Within The Board of Commissioners in Moderating The Relationship Between ESG Performance and Earnings Management Practices

The corporate governance system in Indonesia adopts a two-tier board system, which structurally separates the authority for operational management, held by the board of directors, from the supervisory authority, held by the board of commissioners (Primacintya & Kusuma, 2025). The board of commissioners holds the highest mandate to monitor the effectiveness of management policies and ensure that published reports meet transparency standards for shareholders. The quality of the board of commissioners' composition is a key determining factor, with gender diversity viewed as a vital mechanism for broadening ethical perspectives in the monitoring process. Psychologically and sociologically, women are often associated with more conservative behaviour when reviewing financial reporting and exhibit a higher level of compliance with ethical norms compared to a homogeneous board environment. From a stakeholder perspective, a gender-diverse board of commissioners will be more sensitive to reputational risks and more responsive to the need for accurate public information (Primacintya & Kusuma, 2025).

The presence of women on the board will strengthen the ethical impact of ESG performance. Women will ensure that the company's investments in environmental and social aspects are genuinely implemented in practice, rather than merely serving to mask poor earnings quality (the 'masking hypothesis'). Jusup & Sambuaga (2022) emphasise that the effectiveness of oversight by women on the board can mitigate agency costs and enhance the integrity of financial reporting. Women on the board will demand that the company's image as a responsible entity is genuinely supported by honest and accountable financial reports.

This support for gender moderation is also based on the theory that diverse groups find it more difficult to engage in collusion or conceal information than homogeneous groups (Primacintya & Kusuma, 2025). The involvement of women in board positions can strengthen monitoring effectiveness, making managers less likely to engage in earnings management due to increased ethical oversight (Fitroni & Feliana, 2022). This will make the negative correlation between ESG and earnings management increasingly strong and significant in the eyes of stakeholders. Gender diversity ensures that ESG truly functions as a tool for genuine transparency (Kristianti, 2023). Based on this reasoning, the second hypothesis is proposed as follows:

H2: Gender diversity on the board of commissioners strengthens the influence of ESG performance on earnings management practices.

RESEARCH METHODS

This research is a causal-associative study employing a quantitative approach to determine the cause-and-effect relationships between variables (Sugiyono, 2023). The population comprises all companies included in the LQ45 index listed on the Indonesia Stock Exchange during the 2022–2024 period. Utilizing a purposive sampling technique, 12 companies were selected based on consistent LQ45 listing, consecutive publication of annual and sustainability reports, and adherence to the GRI 2021 standards, yielding a total of 12 observation units. For variable measurement, earnings management (the dependent variable) is proxied using discretionary accruals calculated via the Modified Jones Model (Dechow, 1995). The independent variable, ESG performance, is evaluated through content analysis of sustainability reports based on 117 disclosure items from the GRI Universal Standards 2021 (Global Reporting Initiative, 2021; Wibowo et al., 2025). The moderating variable, board gender diversity, is measured based on the percentage of female members serving on

the board of commissioners (Primacintya & Kusuma, 2025). Profitability and leverage are included as control variables, measured by Return on Asset (ROA) and Debt to Asset Ratio (DAR), respectively.

Data Analysis Techniques

Secondary data obtained from annual and sustainability reports are analyzed using panel data regression techniques with EViews 13. The regression model selection is conducted through the Chow, Hausman, and Lagrange Multiplier tests. The selected model is then evaluated through classical assumption tests involving normality, multicollinearity, heteroscedasticity, and autocorrelation. Subsequently, Moderated Regression Analysis (MRA) is used to evaluate the research hypotheses.

RESULTS AND DISCUSSION

1.1 Model Selection Test

1.2 Chow Test

Table 1. Chow Test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	2,020440	(11,19)	0,0859
Cross-section Chi-square	27,885672	11	0,0034

Source: Eviews 13 Output (Processed data 2026)

The model selection procedure in panel data regression was conducted systematically. The Chow Test was first employed to identify whether the Common Effect Model or Fixed Effect Model was more suitable. Since the Cross-section F probability value was 0.0859, the results support the use of the Common Effect Model (CEM).

1.3 Lagrange Multiplier Test

Table 2. Lagrange Multiplier Test

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	0,0083953	1,479394	1,4877897
	(0,927)	(0,2239)	(0,2226)

Source: Eviews 13 Output (Processed data 2026)

The LM Test provided evidence that the Common Effect Model (CEM) offers a more appropriate estimation framework than the Random Effect Model (REM), as reflected by the probability value of 0.927. Hence, the panel data regression analysis adopts the CEM as the selected model.

1.4 Classical Assumption Tests

In the classical assumption tests, the data passed the normality test (Jarque-Bera probability 0.575292 > 0.05), was free from multicollinearity (all main variable correlations < 0.80), was free from heteroscedasticity after data transformation (Glejser test probability > 0.05), and showed no symptoms of autocorrelation (Durbin-Watson value 1.577211, approaching 2).

1.5 Hypothesis Testing

Table 3. Moderated Regression Analysis (MRA) Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0,2861443	0,1471296	1,9448444	0,0612203
X1	-0,1531741	0,1786168	-0,8575570	0,3979364
Z	-0,3511891	0,6605328	-0,5316755	0,5988661
X1_Z	0,1249126	0,7903651	0,1580442	0,8754810
X2	-0,1065816	0,0763696	-1,3956021	0,1730792
X3	-0,0511201	0,0488337	-1,0468186	0,3035445

R-squared	0,2870623	Mean dependent var	0,0838889
Adjusted R-squared	0,1682393	S.D. dependent var	0,0526383
S.E. of regression	0,0480066	Akaike info criterion	-3,0839455
Sum squared resid	0,0691390	Schwarz criterion	-2,8200257
Log likelihood	61,511019	Hannan-Quinn criter.	-2,9918304
F-statistic	2,4158825	Durbin-Watson stat	1,5772113
Prob(F-statistic)	0,0591238		

Source: Eviews 13 Output (Processed data 2026)

Coefficient of Determination (R-squared Test)

The coefficient of determination evaluates the model's ability to account for fluctuations in the dependent variable. Based on the Table 3, the Adjusted R-squared value achieved is 0,1682393. This figure suggests that the independent variables incorporated in the model specifically ESG performance, board gender diversity, their interaction term, alongside the control variables of profitability and leverage can collectively explain merely 16,82% of the total variation in earnings management behaviors. The remaining 83,18% is driven by additional factors beyond the variables examined in this study.

Simultaneous Significance Test (F-Test)

The F-test is conducted to examine whether the independent, moderating, and control variables jointly affect earnings management. The regression results show an F-statistic of 2.4158825 with a probability value of 0.0591238. Since the probability value is greater than the 5% significance level, the null hypothesis cannot be rejected. Therefore, the independent, moderating, and control variables do not have a statistically significant joint effect on earnings management at the 5% significance level.

Partial Significance Test (t-Test)

The t-test was applied to analyze the partial effect of each variable in the research model. The findings in Table 3 indicate that ESG performance (X1) has a coefficient of -0.1531741 and a probability value of 0.3979364. Since the probability value is greater than 0.05, H1 is rejected, implying that ESG performance does not significantly affect earnings management. The interaction variable between ESG performance and board gender diversity (X1_Z) has a coefficient of 0.1249126 with a probability value of 0.8754810. Therefore, H2 is rejected, which means board gender diversity does not act as a significant moderating variable in the relationship between ESG performance and

earnings management. Moreover, profitability (X2) and leverage (X3) also show insignificant effects, as their probability values of 0.1730792 and 0.3035445 exceed the significance level.

The Impact of ESG Performance on Earnings Management Practices

The results indicate that the level of ESG disclosure by companies in the LQ45 index has not been effective in curbing managers' actions to manipulate financial statements. This suggests that sustainability reporting among LQ45 index companies remains largely symbolic. Companies are suspected of using ESG disclosures merely as a tool for greenwashing without making fundamental changes to their financial reporting practices (Almubarak et al., 2023). This finding aligns with Pravitasari et al. (2026), who argue that ESG disclosures have not yet functioned as an effective governance mechanism to control opportunistic managerial behavior.

The failure of ESG to curb earnings management challenges the application of Stakeholder Theory in the context of the Indonesian capital market. This theory assumes that the disclosure of non-financial information, such as ESG data, is a form of corporate moral responsibility to fulfill stakeholders' right to information, which in turn will reduce information asymmetry and limit earnings management. However, the non-significant results suggest that ESG disclosures have not yet been effectively utilized by stakeholders to monitor and demand genuine managerial accountability. This explanation is reinforced by Yuniawati et al. (2025), who state that stakeholders in emerging markets often do not yet treat non-financial indicators such as ESG as key parameters in assessing the integrity of financial statements.

Given the inconsistency with Stakeholder Theory, the findings of this study become more relevant when explained through the lens of Agency Theory. This theory highlights the existence of inherent conflicts of interest and information asymmetry between the principal (shareholders/stakeholders) and the agent (management) (Yolanda & Widiastuty, 2024). In practice, rather than using ESG to reduce information asymmetry, agents who have greater control over internal information may exploit sustainability reporting as a means to mask problematic earnings (masking hypothesis) (Almubarak et al., 2023). Management tends to publish extensive ESG reports to meet regulatory compliance (such as POJK No. 51/POJK.03/2017) and create a positive public image, in order to conceal their opportunistic behind-the-scenes behavior which continues to manipulate earnings for bonuses or job security. This view is supported by Yolanda & Widiastuty (2024), who demonstrated that high sustainability performance in ASEAN does not guarantee that financial statements are free from earnings management practices. Therefore, without strict management mechanisms to curb managerial opportunism, ESG reporting is not yet sufficient to promote the integrity of financial reporting.

Testing the leverage control variable also yielded non-significant findings regarding earnings management practices. Based on descriptive statistical data, the average debt-to-asset ratio (DAR) of the sample companies stood at 41%, indicating that the proportion of external financing remains within safe and rational limits. This controlled liquidity condition means that companies do not face urgent default risk. This conclusion reinforces the findings of (Amiliyana & Rahayu, 2024), who stated that leverage levels do not influence earnings management practices. Additional empirical support is also found in Irman et al. (2023) and Larasati & Az'mi (2023), who confirm that the financial leverage variable does not have a positive and significant effect on earnings management. Therefore, managers of LQ45-index companies have no incentive to manipulate financial statements

because they possess sufficient capacity to repay their debt obligations naturally without having to intervene in accounting policies.

The Impact of Board of Commissioners' Gender Diversity on the Association between ESG Performance and Earnings Management Practices

The analysis shows that board gender diversity does not act as a significant moderator in the relationship between ESG performance and earnings management. This outcome does not support the Stakeholder Theory perspective, which assumes that female board members can contribute to stronger ethical supervision and limit managers' opportunistic decisions (Primacintya & Kusuma, 2025). The result is in line with Halila et al. (2022), who also found that gender diversity within the board does not significantly influence earnings management. Earnings management practices are not significantly influenced by the gender composition of the board of commissioners, as also emphasized by Fitroni & Feliana (2022). Overall, the statistical evidence obtained in this study leads to the conclusion that women's representation on the board does not yet carry sufficient structural weight to help determine the direction of a company's strategic decisions, particularly those related to financial reporting practices and sustainability disclosures.

This situation can be explained by analyzing the proportion of female board members in LQ45-indexed companies. Observational data indicates that the average proportion of women on the board of commissioners of the sample companies is only around 21.6%, with some entities having absolutely no female representation (0%). This limited presence strongly suggests the occurrence of tokenism, where the appointment of female board members is predominantly symbolic intended to fulfill diversity expectations without granting them commensurate structural authority. According to Critical Mass Theory, a subgroup must reach a critical threshold typically at least 30% female representation to enable minority members to move beyond token status, alter board culture, and substantially influence group decision-making dynamics (Lesch et al., 2022). Because the average representation of 21.6% in the sampled firms falls well below this 30% benchmark, the distinct ethical perspectives and oversight contributions of female commissioners remain marginalized.

These research findings are further supported by Larasati & Az'mi (2023), who state that board gender diversity has no significant effect on earnings management and does not moderate the relationship between Corporate Social Responsibility (CSR) and earnings management. The fact that women are such a small minority on boards makes it difficult for them to exert adequate oversight. This implies that the effectiveness of ethical oversight stemming from gender diversity is highly dependent on proportional representation. As long as women's representation remains merely tokenistic, the impact of ESG on preventing earnings management will not see any meaningful change.

Earnings management practices are not significantly influenced by a company's ability to generate profits, as indicated by the results of the profitability control variable tests. Accrual manipulation is not motivated by high or low profitability among companies in the LQ45 index. Large-cap companies generally have strong business fundamentals, so management prioritizes long-term performance stability over manipulating earnings for short-term gains. This finding aligns with Agustin & Widiatmoko (2022), who demonstrated that profitability, as a control variable, does not influence earnings management. Furthermore, Dewi & Dewi (2025) and Pravitasari et al. (2026) also confirmed that profitability, proxied by Return on Assets (ROA), does not significantly influence earnings management. This demonstrates that financial performance in large-scale companies is

viewed more as a reflection of sound economic conditions, thus providing no additional incentive for managers to engage in opportunistic actions.

CONCLUSION

Based on the findings, ESG performance is not proven to significantly affect earnings management practices in companies included in the LQ45 index over the 2022–2024 observation period. This indicates that corporate sustainability reporting remains largely symbolic (greenwashing) and has not yet been effectively utilized by stakeholders as a monitoring tool. These findings challenge the expectations of Stakeholder Theory and are more consistent with Agency Theory, under which management is suspected of exploiting information asymmetry by using ESG reports merely as a strategic communication tool to secure their position, while profit engineering practices continue (masking hypothesis).

The insignificant moderating effect of board gender diversity may be related to the limited proportion of female commissioners, which is approximately 21.6%. This level of representation may not be sufficient to establish a critical mass, reducing the ability of female commissioners to substantially influence monitoring effectiveness and managerial behavior. Furthermore, the control variables of profitability and leverage were not found to influence earnings management, given the established financial fundamentals of large-scale companies. Overall, the magnitude of potential agency conflicts indicates that ESG practices and the presence of a minority of women on the board of commissioners do not yet possess sufficient structural power to mitigate management's opportunistic behavior in financial reporting.

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