

Beyond ESG: Do Independent Commissioners Strengthen the Fight Against Earnings Management?

Malem Pagi Sembiring ^{1*}, Dhiyaa Meuthia Faiqah Erba ², Muhammad Fajar ³

^{1*,2,3} Digital Business Accounting Study Program, Politeknik Hasnur, Barito Kuala Regency, South Kalimantan Province, Indonesia

Email: sembiringmalem@gmail.com ^{1*}, dhiyaameuthia1402@gmail.com ², muhammadfajar57@gmail.com ³

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Abstract

This study analyzes the effects of Environmental, Social, and Governance (ESG) Disclosure, Managerial Ownership, and Financial Distress on Earnings Management, and examines the role of Independent Commissioners as a moderating variable in energy sector companies listed on the Indonesia Stock Exchange in 2024. The study employs a quantitative approach with an explanatory research design. The data used are secondary data obtained from companies' annual reports, sustainability reports, and financial statements. The sample consists of 198 companies selected using purposive sampling. Data analysis was conducted using multiple linear regression and Moderated Regression Analysis (MRA) with IBM SPSS Statistics version 31. The results indicate that ESG Disclosure and Managerial Ownership have a significant negative effect on Earnings Management, while Financial Distress has no significant effect. Furthermore, Independent Directors were found to strengthen the influence of ESG Disclosure and Managerial Ownership in curbing Earnings Management practices; however, they were unable to moderate the relationship between Financial Distress and Earnings Management. These findings provide empirical support for Agency Theory, which states that effective corporate governance mechanisms can reduce agency conflicts and improve the quality of financial reporting. In practical terms, companies need to improve the quality of their ESG disclosures, strengthen managerial ownership, and optimize the effectiveness of the oversight function of independent commissioners to enhance transparency and minimize earnings management practices.

Keywords:

Earnings Management; ESG Disclosure; Financial Distress; Managerial Ownership; Independent Commissioners.

1. INTRODUCTION

Financial statements are the primary source of information used by investors, creditors, regulators, and other stakeholders to evaluate a company's financial condition, performance, and sustainability prospects. Profit receives particular attention because it supports investment decisions, credit assessments, management evaluations, and executive compensation. Therefore, earnings quality is important because it reflects the extent to which financial information reliably represents a company's economic condition (Dechow & Schrand, 2004; Healy & Wahlen, 1999; Jensen & Meckling, 1976). When reported earnings are influenced by managerial interests, the quality of financial statements may decline and mislead users in making decisions (Andriani & Arsjah, 2022; Siahaan et al., 2025).

The flexibility inherent in accounting standards allows management to exercise professional judgment, but it may also create opportunities for opportunistic behavior through earnings management. Healy & Wahlen (1999) define earnings management as the use of managerial judgment in financial reporting or transaction structuring to influence reported earnings and stakeholders' perceptions of firm performance. Such practices may involve accrual manipulation or real activities and can undermine the credibility of financial statements

when they prioritize managerial interests over the company's actual economic condition (Dechow & Schrand, 2004; Healy & Wahlen, 1999; Tahlil & Rakhman, 2026).

Earnings management can reduce the quality of accounting information and impair capital market efficiency by increasing the risk of mispricing, raising the cost of capital, damaging corporate reputation, and reducing public confidence. Consequently, regulators continue to strengthen financial reporting standards, corporate governance, and transparency to limit opportunistic managerial behavior. Nevertheless, earnings management remains an important issue in accounting research, particularly alongside increasing attention to governance, transparency, and sustainability reporting (Siahaan et al., 2025; Tahlil & Rakhman, 2026).

The persistence of earnings management is also reflected in several financial reporting scandals. International cases involving Enron, Toshiba, and Xerox demonstrate that weak oversight can provide opportunities for management to manipulate financial information. In Indonesia, similar concerns have emerged in cases involving PT Garuda Indonesia Tbk, PT Tiga Pilar Sejahtera Food Tbk, and PT Indofarma Tbk (Forddanta & Prasetyo, 2019; Hartomo, 2019; Ketut et al., 2025). These cases indicate that accounting standards and corporate governance mechanisms have not always been sufficient to prevent opportunistic reporting, highlighting the need to identify factors that can reduce earnings management.

Environmental, Social, and Governance (ESG) disclosure has increasingly become an important consideration for investors and stakeholders in assessing corporate transparency, accountability, and sustainability. From an Agency Theory perspective, ESG disclosure can reduce information asymmetry by providing more comprehensive information and limiting opportunistic managerial behavior. However, empirical findings remain inconsistent. Several studies report that ESG disclosure or performance negatively affects earnings management by improving transparency, governance, and financial reporting credibility (Andriani & Arsjah, 2022; Kolsi et al., 2023; V. D. Nguyen et al., 2024; Novianti et al., 2026; N. Rahman et al., 2025; Ricapito, 2024; Sriwijayanti et al., 2025; Tahlil & Rakhman, 2026; Tarisa & Rohman, 2026). Conversely, other studies find positive or insignificant effects, suggesting that ESG disclosure may sometimes be used to enhance legitimacy and reputation without substantive improvements in financial reporting quality (Pravitasari et al., 2026; Pujaprayoga & Kartadjumena, 2025; Souza et al., 2026; Tanujaya & Dharmawan, 2025). These inconsistencies warrant further investigation, particularly in the energy sector, which faces substantial sustainability demands, environmental risks, and regulatory scrutiny.

Financial distress represents a deterioration in financial health that reduces a company's ability to meet its obligations and increases the risk of financial failure. Under Agency Theory, financial distress may intensify conflicts between management and shareholders because managers may have incentives to maintain the appearance of strong performance through earnings management. However, empirical findings remain mixed. V. D. Nguyen et al. (2024), T. A. Nguyen (2026), and Sari et al. (2024) find that financial distress has a positive effect on earnings management, whereas Kristyaningsih et al. (2021), Irawan et al. (2025), and Putri et al. (2024) report no significant effect. These differences suggest the need for further examination, particularly in the energy sector, which is characterized by relatively high business risks and financing requirements.

Managerial ownership refers to the proportion of company shares held by management. Based on Agency Theory, managerial ownership can align managerial and shareholder interests, thereby reducing agency conflicts and earnings management. However, higher managerial ownership may also create an entrenchment effect that increases managerial control and opportunities for opportunistic behavior. Previous studies provide mixed evidence: managerial ownership has been found to have a negative effect on earnings management (Daeli & Deviani, 2025), a positive effect (Farawansyah et al., 2024; Sari et al., 2024; Tatar & Sujana, 2021; Zandrato & Ompusunggu, 2023), or no significant effect (Ismiati et al., 2026; Prasetyo & Suhendah, 2023; Inayati et al., 2025). These inconsistent findings warrant further investigation in the energy sector.

Independent commissioners constitute an important Good Corporate Governance mechanism because they are expected to independently monitor management and protect shareholder interests. From an Agency Theory perspective, effective independent oversight can reduce agency conflicts, constrain opportunistic behavior, and improve financial reporting quality. However, previous findings remain inconsistent. Daeli & Deviani (2025) indicate that independent commissioners can reduce earnings management through stronger monitoring, whereas Nanda & Somantri (2020), Rosdiana (2022), and Zuvilla & Surono (2022) report positive or insignificant effects, suggesting that their presence may sometimes be formal and their effectiveness dependent on firm and governance characteristics. Therefore, the role of independent commissioners as a moderating mechanism, particularly in the relationship between managerial ownership and earnings management, requires further empirical investigation.

Based on the theoretical and empirical evidence, the effects of ESG Disclosure, Financial Distress, and Managerial Ownership on earnings management remain inconclusive. Most previous studies examine these variables separately, while relatively few integrate them into a single model and examine Independent Commissioners as a moderating variable. This research gap is particularly relevant to energy companies in Indonesia, which face increasing demands for transparency, ESG implementation, regulatory oversight, and dynamic business conditions.

This study contributes to the literature by integrating ESG Disclosure, Financial Distress, and Managerial Ownership into a single model of earnings management and examining Independent Commissioners as a moderating variable. It also focuses on energy sector companies listed on the Indonesia Stock Exchange, a

sector facing increasing demands related to ESG implementation, energy transition, and regulatory oversight. These characteristics provide an important context for examining how corporate governance mechanisms influence financial reporting behavior.

Based on the identified phenomena, theoretical framework, and research gap, this study aims to examine the effects of ESG Disclosure, Financial Distress, and Managerial Ownership on earnings management in energy sector companies listed on the Indonesia Stock Exchange in 2024. It further examines whether Independent Commissioners moderate these relationships. The findings are expected to contribute to the literature on financial accounting and corporate governance while providing insights for investors, management, regulators, and other stakeholders in strengthening transparency, financial reporting quality, and Good Corporate Governance.

2. RESEARCH METHOD

This study employs a quantitative approach with an explanatory research design to examine the effects of Environmental, Social, and Governance (ESG) Disclosure, Financial Distress, and Managerial Ownership on Earnings Management, with Independent Directors serving as a moderating variable. A quantitative approach was chosen because this study aims to examine causal relationships among variables based on numerical data analyzed using statistical techniques. The population in this study consists of 234 energy sector companies listed on the Indonesia Stock Exchange (IDX) in 2024. The sampling technique used purposive sampling with the following criteria: (1) energy sector companies listed on the Indonesia Stock Exchange in 2024; (2) companies that published complete annual reports and sustainability reports; (3) companies with complete data for all research variables; and (4) companies that were not delisted during the study period. Based on these criteria, 198 companies that met the requirements were identified and used as the research sample.

The data used consists of secondary data obtained from annual reports, sustainability reports, and financial statements published on the official website of the Indonesia Stock Exchange (www.idx.co.id) and the official websites of the respective companies. The dependent variable in this study is Earnings Management, measured using the Modified Jones Model. The independent variables consist of ESG Disclosure, measured using an ESG disclosure index based on information presented in the companies' sustainability reports; Financial Distress, measured using the Altman Z-Score; and Managerial Ownership, measured based on the percentage of shares owned by management relative to total outstanding shares. Independent directors, serving as the moderating variable, are measured based on the proportion of independent directors relative to the total number of board members.

Table 1. Operational Definitions of Research Variables

Variable	Operational Definition	Measurement	Reference
Earnings Management (Y)	Management actions aimed at influencing reported earnings through the selection of specific accounting policies.	Modified Jones Model (Discretionary Accruals/DA)	Dechow et al. (1995)
ESG Disclosure (X ₁)	The extent of disclosure regarding Environmental, Social, and Governance (ESG) information presented in the company's sustainability report.	ESG Disclosure Index = Number of disclosed ESG items ÷ Total applicable ESG disclosure items	GRI Standards (2021); previous studies
Financial Distress (X ₂)	A condition indicating the deterioration of a company's financial health, reflecting the potential risk of financial distress or bankruptcy.	Altman Z-Score	Altman (1968)
Managerial Ownership (X ₃)	The percentage of a company's outstanding shares owned by management members who participate in corporate decision-making.	Shares owned by management ÷ Total outstanding shares × 100%	Jensen & Meckling (1976)
Independent Commissioners (Z)	The proportion of board members who are independent and have no affiliation with management or controlling shareholders.	Number of independent commissioners ÷ Total board of commissioners × 100%	POJK No. 33/POJK.04/2014

The research model consists of two equations. The first model is used to test the direct effects of ESG Disclosure, Financial Distress, and Managerial Ownership on Earnings Management through multiple linear

regression analysis, while the second model is used to test the role of Independent Directors as a moderating variable using Moderated Regression Analysis (MRA).

$$\text{Model 1. Multiple Linear Regression} \\ \text{EM} = \alpha + \beta_1 \text{ ESG} + \beta_2 \text{ FD} + \beta_3 \text{ MO} + \varepsilon$$

Where EM represents Earnings Management, α is the constant, β_1 , β_2 , β_3 , and β_4 are the regression coefficients for ESG Disclosure, Financial Distress, Managerial Ownership, and Independent Commissioners, respectively; ESG represents ESG Disclosure, FD represents Financial Distress, MO represents Managerial Ownership, IC represents Independent Commissioners, and ε represents the error term.

$$\text{Model 2. Moderated Regression Analysis (MRA)} \\ \text{ML} = \alpha + \beta_1 \text{ ESG} + \beta_2 \text{ FD} + \beta_3 \text{ MO} + \beta_4 \text{ IC} + \beta_5 (\text{ESG} \times \text{IC}) + \beta_6 (\text{FD} \times \text{IC}) + \beta_7 (\text{MO} \times \text{IC}) + \varepsilon$$

Where EM represents Earnings Management, α is the constant, β_1 – β_7 are the regression coefficients, ESG represents ESG Disclosure, FD represents Financial Distress, MO represents Managerial Ownership, IC represents Independent Commissioners, $\text{ESG} \times \text{IC}$ represents the interaction between ESG Disclosure and Independent Commissioners, $\text{FD} \times \text{IC}$ represents the interaction between Financial Distress and Independent Commissioners, $\text{MO} \times \text{IC}$ represents the interaction between Managerial Ownership and Independent Commissioners, and ε represents the error term. Model 2 is used to determine whether Independent Commissioners moderate the relationships between ESG Disclosure, Financial Distress, Managerial Ownership, and Earnings Management.

Data analysis was performed using IBM SPSS Statistics version 31. The initial stage of the analysis began with classical assumption tests, including tests for normality, multicollinearity, and heteroscedasticity, to ensure that the regression model met the assumptions of linear regression. The normality test was performed using the Kolmogorov–Smirnov test, with a significance level criterion greater than 0.05, indicating that the residual data are normally distributed. The multicollinearity test was conducted by examining the Tolerance and Variance Inflation Factor (VIF) values; the model is considered free of multicollinearity if the Tolerance value is > 0.10 and the VIF is < 10 . The heteroscedasticity test was conducted using the Glejser test, with a significance level for each independent variable greater than 0.05, indicating that there were no signs of heteroscedasticity. After all classical assumptions were met, multiple linear regression analysis was performed to test the effects of ESG Disclosure, Financial Distress, and Managerial Ownership on Earnings Management. Furthermore, Moderated Regression Analysis (MRA) was used to test whether Independent Directors can moderate the effects of ESG Disclosure, Financial Distress, and Managerial Ownership on Earnings Management by creating interaction terms between the moderator variable and each independent variable. Hypothesis testing was conducted using the t-test to examine the partial effects of each independent variable on the dependent variable, the F-test to examine the simultaneous effects of all independent variables on earnings management, and the coefficient of determination (R^2) to measure the model's ability to explain variations in earnings management. All tests were conducted at a 5% significance level ($\alpha = 0.05$) (Ghozali, 2018; Sugiyono, 2022).

3. RESULTS AND DISCUSSION

3.1. Results

3.1.1. Results of the Classical Assumptions Test

Before testing the hypotheses, the regression model was first tested using the classical assumptions test, which includes tests for normality, multicollinearity, and heteroscedasticity. The test results are presented in Table 2.

Table 2. Results of Classical Assumption Tests

Test	Variable	Value	Criteria	Conclusion
Normality	Residual	Asymp. Sig. = 0.200	> 0.05	Normally distributed
Multicollinearity	ESG Disclosure	Tolerance = 0.910; VIF = 1.099	Tolerance > 0.10 ; VIF < 10	No multicollinearity
	Managerial Ownership	Tolerance = 0.987; VIF = 1.013	Tolerance > 0.10 ; VIF < 10	No multicollinearity
	Financial Distress	Tolerance = 0.992; VIF = 1.008	Tolerance > 0.10 ; VIF < 10	No multicollinearity

	Independent Commissioners	Tolerance = 0.907; VIF = 1.102	Tolerance > 0.10; VIF < 10	No multicollinearity
Heteroscedasticity (Glejser Test)	ESG Disclosure	Sig. = 0.607	> 0.05	No heteroscedasticity
	Managerial Ownership	Sig. = 0.087	> 0.05	No heteroscedasticity
	Financial Distress	Sig. = 0.677	> 0.05	No heteroscedasticity
	Independent Commissioners	Sig. = 0.984	> 0.05	No heteroscedasticity

Based on Table 2, the results of the classical assumption tests indicate that the regression model satisfies all required assumptions. The normality test yielded an Asymp. Sig. value of 0.200, which is greater than 0.05, indicating that the residuals are normally distributed. Furthermore, the multicollinearity test shows that all independent variables have a Tolerance value above 0.10 and a Variance Inflation Factor (VIF) below 10, indicating that there is no multicollinearity. The results of the heteroscedasticity test using the Glejser method showed that all variables had significance values greater than 0.05, indicating that there was no heteroscedasticity. Thus, the regression model was found to satisfy the classical assumptions and is suitable for use in both multiple linear regression analysis and Moderated Regression Analysis (MRA).

3.1.2. Result of the Multiple Linear Regression Analysis

A multiple linear regression analysis was conducted to determine the effects of Environmental, Social, and Governance (ESG) Disclosure, Managerial Ownership, and Financial Distress on Earnings Management. The results of the multiple linear regression analysis are presented in Table 3.

Table 3. Multiple Linear Regression Results					
Variable	Coefficient (B)	Std. Error	Standardized Coefficient (Beta)	t-value	Sig.
Constant	0.103	0.013	–	7.847	<0.001
ESG Disclosure	-0.058	0.020	-0.176	-2.877	0.004
Managerial Ownership	-0.058	0.019	-0.179	-3.055	0.003
Financial Distress	-0.001	0.001	-0.080	-1.369	0.173

The multiple linear regression equation obtained from Table 3 is as follows:

$$EM = 0.103 - 0.058ESG - 0.058MO - 0.001FD + \varepsilon$$

This equation shows that a constant value of 0.103 indicates the level of earnings management when all independent variables are assumed to be constant. The regression coefficient for ESG Disclosure of -0.058 indicates that an increase in ESG disclosure tends to reduce the level of earnings management. Similarly, Managerial Ownership has a coefficient of -0.058 , indicating a negative relationship with earnings management. Meanwhile, Financial Distress has a coefficient of -0.001 , which also indicates a negative relationship with earnings management. The testing of the role of Independent Directors as a moderating variable will be analyzed further in the Moderated Regression Analysis (MRA) stage.

3.1.3. Moderated Regression Analysis (MRA)

Moderated Regression Analysis (MRA) was conducted to test whether independent directors can moderate the effects of Environmental, Social, and Governance (ESG) Disclosure, Managerial Ownership, and Financial Distress on Earnings Management. The results of the moderated regression analysis are presented in Table 4.

Table 4. Moderated Regression Analysis Results					
Variable	Coefficient (B)	Std. Error	Standardized Coefficient (Beta)	t-value	Sig.
Constant	0.134	0.020	–	6.868	<0.001
ESG Disclosure	-0.173	0.051	-0.524	-3.383	<0.001
Managerial Ownership	-0.119	0.042	-0.369	-2.867	0.005
Financial Distress	0.000	0.003	-0.028	-0.135	0.892
Independent Commissioners	-0.313	0.047	-0.673	-6.636	<0.001
ESG Disclosure $\times$ Independent Commissioners	0.297	0.111	0.496	2.674	0.008

Managerial Ownership × Independent Commissioners	0.193	0.095	0.261	2.032	0.044
Financial Distress × Independent Commissioners	-0.001	0.006	-0.040	-0.189	0.850

Based on the results presented in Table 4, the moderated regression equation is expressed as follows:

$$EM = 0.134 - 0.173ESG - 0.119MO + 0.000FD - 0.313IC + 0.297(ESG \times IC) + 0.193(MO \times IC) - 0.001(FD \times IC) + \varepsilon$$

Based on these equations, the variables ESG Disclosure, Managerial Ownership, and Independent Commissioners have negative regression coefficients with respect to earnings management, while Financial Distress has a coefficient close to zero. Meanwhile, the interaction terms ESG Disclosure × Independent Directors and Managerial Ownership × Independent Directors have positive coefficients, indicating a change in the relationship between the independent variables and earnings management when influenced by Independent Directors. Meanwhile, the interaction term Financial Distress × Independent Directors has a relatively small negative coefficient. The significance of each main variable and interaction variable will be discussed further in the hypothesis testing section.

3.1.4. Simultaneous Significance Test (F-Test)

The simultaneous significance test (F-test) was conducted to determine whether the independent variables collectively explain the variation in Earnings Management in the regression model. In this study, the test was performed on two models, namely Model 1 (Multiple Linear Regression) and Model 2 (Moderated Regression Analysis (MRA)). The results of the F-test are presented in Table 5.

Table 5. Results of the Simultaneous Significance Test (F-Test)

Model	F-value	Sig.	Conclusion
Model 1 (Multiple Linear Regression)	25.283	<0.001	The regression model is statistically significant.
Model 2 (Moderated Regression Analysis)	18.780	<0.001	The regression model is statistically significant.

Based on Table 5, Model 1 yielded a calculated F-value of 25.283 with a significance level of <0.001, while Model 2 yielded a calculated F-value of 18.780 with a significance level of <0.001. These results indicate that both models have a significance level below 0.05; therefore, the regression models are deemed appropriate for use in this study. Thus, the models developed can be used as a basis for analyzing the relationship between the independent variables and earnings management, both before and after including the moderating variable.

3.1.5. Coefficient of Determination (R²)

The coefficient of determination (R²) was used to measure the explanatory power of the regression model in explaining the variation in Earnings Management. The R² value indicates the proportion of variation in the dependent variable that can be explained by the independent variables included in the regression model. The coefficients of determination for Model 1 and Model 2 are presented in Table 6.

Table 6. Coefficient of Determination (R²) Results

Model	R Square
Model 1 (Multiple Linear Regression)	0.344
Model 2 (Moderated Regression Analysis)	0.409

Based on Table 6, Model 1 has an R-squared value of 0.344, indicating that 34.4% of the variation in earnings management can be explained by the variables Environmental, Social, and Governance (ESG) Disclosure, Managerial Ownership, Financial Distress, and Independent Directors, while the remaining 65.6% is explained by other factors outside the research model. Meanwhile, Model 2 has an R-squared value of 0.409, meaning that 40.9% of the variation in earnings management can be explained by the independent variables, Independent Directors as well as the interaction terms in the moderation model, while the remaining 59.1% is influenced by other factors outside the research model. The increase in the R-squared value from Model 1 to Model 2 indicates that the addition of the moderating variable enhances the model's ability to explain the variation in earnings management.

3.1.6. Hypothesis Testing (t-Test)

The t-test was conducted to examine the effect of each independent variable on Earnings Management and to evaluate the moderating role of Independent Commissioners. In this study, hypothesis testing was based on two regression models. Hypotheses H1, H2, and H3 were tested using the results of the Multiple Linear

Regression (Model 1) to examine the direct effects of the independent variables on Earnings Management. Meanwhile, hypotheses H4, H5, and H6 were tested using the results of the Moderated Regression Analysis (Model 2) to examine whether Independent Commissioners moderate the relationships between the independent variables and Earnings Management. The hypotheses were evaluated based on the significance level, where a hypothesis was accepted if the p-value was less than 0.05. The results of the hypothesis testing are presented in Table 7.

Table 7. Hypothesis Testing Results (t-Test)

Hypothesis	Variable	t-value	Sig.	Decision
H1	ESG Disclosure	-2.877	0.004	Accepted
H2	Managerial Ownership	-3.055	0.003	Accepted
H3	Financial Distress	-1.369	0.173	Rejected
H4	ESG Disclosure × Independent Commissioners	2.674	0.008	Accepted
H5	Managerial Ownership × Independent Commissioners	2.032	0.044	Accepted
H6	Financial Distress × Independent Commissioners	-0.189	0.850	Rejected

Based on Table 7, the results of the hypothesis tests for Model 1 indicate that ESG Disclosure and Managerial Ownership have significance values of 0.004 and 0.003, respectively, so H1 and H2 are accepted. Meanwhile, Financial Distress has a significance value of 0.173, so H3 is rejected. Furthermore, the test results for Model 2 (MRA) show that the interactions between ESG Disclosure × Independent Directors and Managerial Ownership × Independent Directors have significance values of 0.008 and 0.044, respectively, so H4 and H5 are accepted. The interaction between Financial Distress and Independent Directors has a significance value of 0.850, so H6 is rejected.

3.2. Discussion

3.2.1. The Effect of ESG Disclosure on Earnings Management

The results of the hypothesis testing show that ESG disclosure has a negative and significant effect on earnings management; therefore, H1 is accepted. This finding indicates that the higher a company's level of ESG disclosure, the lower its tendency to engage in earnings management practices. From an agency theory perspective, high-quality ESG disclosure reduces information asymmetry between management and shareholders by providing more transparent and accountable information. This transparency enhances oversight by stakeholders, thereby limiting management's scope for opportunistic actions, including earnings manipulation. Thus, the implementation of ESG not only reflects a company's commitment to sustainability but also serves as a governance mechanism that supports improved financial reporting quality.

These findings are consistent with previous studies showing that ESG plays a role in curbing earnings management practices. Tahlil & Rakhman (2026) found that changes in ESG ratings have a significant negative effect on accrual-based earnings management. Similar results were also reported by Novianti et al. (2026), who stated that the higher the level of ESG disclosure, the lower a company's tendency to engage in earnings management practices. International studies by Ricapito (2024) on companies in Italy and Kolsi et al. (2023) on the U.S. banking sector also demonstrate that companies with better ESG performance tend to present more transparent financial statements and exhibit lower levels of earnings management. Consistent findings were also reported by Sriwijayanti et al. (2025), Andriani & Arsiah (2022), and Tarisa & Rohman (2026) indicating that the implementation of ESG can curb opportunistic managerial behavior, thereby improving a company's earnings quality.

On the other hand, the results of this study differ from the findings of Tanujaya & Dharmawan (2025), who stated that ESG performance actually has a positive effect on earnings management practices. This discrepancy may be due to differences in sample characteristics, the study period, and the ESG measurement methods used. The study by Tanujaya & Dharmawan (2025) utilized companies that consistently published sustainability reports over a seven-year period; thus, companies with high ESG scores were presumed to face greater pressure to maintain their sustainability image through strong financial performance. Meanwhile, this study indicates that for companies in Indonesia's energy sector, ESG disclosure functions more as a mechanism for oversight and transparency capable of curbing earnings management practices, thereby supporting the view that effective ESG implementation can strengthen corporate governance and improve the quality of financial reporting.

3.2.2. The Effect of Managerial Ownership on Earnings Management

The results of the hypothesis testing indicate that managerial ownership has a negative and significant effect on earnings management; therefore, H2 is accepted. This finding suggests that a higher proportion of shares owned by management is associated with a lower likelihood of engaging in earnings management practices. From the perspective of Agency Theory, managerial ownership aligns the interests of managers (agents) with those of shareholders (principals). When managers become shareholders, they bear both the risks and benefits of corporate decisions, encouraging them to prioritize the firm's long-term value over short-term

personal interests. Consequently, managers have fewer incentives to manipulate accounting information and are more likely to present transparent and reliable financial statements.

However, the findings of this study differ from those reported by R. A. Rahman et al. (2021), who found that managerial ownership is positively associated with real earnings management. Their study suggests that higher managerial ownership may strengthen managers' ability to influence financial reporting, particularly under certain institutional conditions. Likewise, Tatar & Sujana (2021) reported that managerial ownership has a positive and significant effect on earnings management in Indonesian manufacturing companies. Similarly, Zendrato & Ompusunggu (2023) also found that managerial ownership significantly affects earnings management. These differences indicate that the relationship between managerial ownership and earnings management remains inconclusive and may vary depending on firm characteristics, ownership structures, and the industrial sector examined.

The different findings obtained in this study may be attributed to the characteristics of Indonesia's energy sector, which is subject to stricter regulatory oversight, greater public scrutiny, and increasing ESG implementation. Under these conditions, managerial ownership appears to function more effectively as an internal governance mechanism that aligns managerial and shareholder interests, thereby reducing managers' incentives to engage in opportunistic earnings management. These findings suggest that, in the context of energy companies, managerial ownership contributes to strengthening corporate governance and improving the credibility of financial reporting.

3.2.3. The Effect of Financial Distress on Earnings Management

The results of the hypothesis testing show that financial distress does not have a significant effect on earnings management; therefore, H3 is rejected. This finding indicates that the financial distress experienced by a company does not necessarily prompt management to engage in earnings management practices. From an agency theory perspective, although financial distress can increase conflicts of interest between management and shareholders due to pressure to maintain company performance, management does not always resort to opportunistic actions through earnings manipulation. This suggests that the decision to engage in earnings management is influenced by various other factors, such as the effectiveness of oversight mechanisms, the implementation of corporate governance, and increased regulatory and investor scrutiny regarding the quality of financial reporting. Thus, financial distress alone is not sufficient reason for management to engage in earnings management practices.

The results of this study are consistent with various previous studies showing that financial distress does not affect earnings management. Kristyaningsih et al. (2021) found that manufacturing companies experiencing financial distress prefer to report their actual financial condition because earnings management practices could potentially lead to greater losses in the future. Similar findings were also reported by Sally Irawan et al. (2025), who stated that financial distress does not have a significant effect on earnings management in companies in the infrastructure, utilities, and transportation sectors. Research by Kristyaningsih et al. (2021) further indicates that financial distress does not influence earnings management practices in the property, real estate, and construction sectors. Additionally, a study by Ussamah et al. (2026) also demonstrates that financial distress is not the primary factor driving companies to engage in earnings management, as such practices are more heavily influenced by factors other than the company's financial distress.

The findings of this study reinforce the empirical evidence that financial distress is not always addressed by management through earnings management practices. Companies facing financial distress tend to be more cautious in preparing financial statements due to the risk of losing the trust of investors, creditors, or regulators if earnings manipulation is uncovered. Therefore, companies focus more on efforts to genuinely improve operational conditions and financial performance rather than engaging in accounting manipulation that provides only short-term benefits. These results indicate that the presence of financial distress is not a factor that directly determines the occurrence of earnings management practices; thus, other, more dominant factors are needed to explain this behavior.

3.2.4. The Role of Independent Directors in Moderating the Effect of ESG Disclosure on Earnings Management

The results of the Moderated Regression Analysis (MRA) indicate that the interaction between ESG Disclosure and Independent Directors has a positive and significant effect on earnings management; thus, H4 is accepted. This finding suggests that the presence of independent directors strengthens the effect of ESG Disclosure in curbing earnings management practices. From an agency theory perspective, independent directors serve as a supervisory mechanism capable of reducing conflicts of interest between management and shareholders. More effective oversight ensures that the sustainability information disclosed by companies through ESG is not merely a fulfillment of reporting obligations but also reflects the company's actual condition. Thus, companies with a high level of ESG disclosure supported by effective oversight from independent directors tend to have higher-quality financial reporting and a lower likelihood of engaging in earnings management practices.

These findings are supported by research by Tahlil & Rakhman (2026), which demonstrates that corporate governance mechanisms can enhance the effectiveness of ESG in improving the quality of financial reporting

and reducing opportunistic management behavior. Furthermore, Daeli & Deviani (2025) also found that the proportion of independent board members has a negative effect on earnings management, indicating that the presence of independent directors enhances the monitoring function over management actions. These findings align with Agency Theory, which posits that strong oversight mechanisms reduce information asymmetry and limit opportunistic management behavior, thereby enabling more effective ESG implementation to enhance corporate transparency.

The findings of this study reinforce the evidence that the effectiveness of ESG implementation depends not only on the extent of sustainability disclosures but is also influenced by the quality of corporate governance, particularly the presence of independent commissioners. Independent directors play a role in ensuring that the ESG information disclosed by the company truly reflects the company's operational conditions and performance, so that it is not exploited as a means to conceal profit manipulation practices. Therefore, companies that are able to integrate ESG practices with effective oversight mechanisms will have higher financial reporting credibility, increase investor confidence, and strengthen the application of good corporate governance in supporting corporate sustainability.

3.2.5. The Role of Independent Directors in Moderating the Effect of Managerial Ownership on Earnings Management

The results of the Moderated Regression Analysis (MRA) indicate that the interaction between managerial ownership and independent directors has a positive and significant effect on earnings management; thus, H5 is accepted. This finding indicates that the presence of independent directors strengthens the influence of managerial ownership in curbing earnings management practices. From an Agency Theory perspective, managerial ownership serves to align the interests of management and shareholders, while independent directors reinforce this function through objective oversight of management's policies. The combination of high managerial ownership and effective oversight by independent directors reduces the likelihood of opportunistic behavior, thereby improving the quality of financial reporting and minimizing earnings management practices.

These research findings are supported by Tahlil & Rakhman (2026), who state that corporate governance mechanisms, including managerial ownership, can enhance the quality of financial reporting by reducing opportunistic behavior on the part of management. Furthermore, Daeli & Deviani (2025) also demonstrate that independent directors play a role in curbing earnings management practices through more effective monitoring functions. The results of this study indicate that the implementation of good corporate governance will be more effective if managerial ownership as an internal corporate mechanism is supported by the oversight of independent commissioners as an external mechanism. The synergy between these two mechanisms can enhance transparency, reduce agency conflicts, and improve the credibility of a company's financial statements.

3.2.6. The Role of Independent Directors in Moderating the Effect of Financial Distress on Earnings Management

The results of the Moderated Regression Analysis (MRA) show that the interaction between financial distress and independent directors does not have a significant effect on earnings management; therefore, H6 is rejected. This finding indicates that the presence of independent directors has not been able to moderate the relationship between financial distress and earnings management. From an Agency Theory perspective, independent directors essentially serve as a monitoring mechanism to reduce conflicts of interest between management and shareholders. However, when a company faces financial distress, the effectiveness of this oversight function may not necessarily influence management's decisions regarding earnings management practices. This suggests that a company's financial pressure is more influenced by operational conditions, the company's ability to manage risk, and performance recovery strategies than by the presence of independent directors.

These findings are supported by research by Nanda & Somantri (2020), which shows that independent directors have no effect on earnings management in banking companies, meaning their presence does not necessarily limit opportunistic actions by management. Similar findings were also reported by Zuvilla & Surono (2022), who stated that, in part, independent directors do not affect earnings management. Furthermore, Januartha & As'ari (2024) also found that ownership mechanisms and corporate governance do not always influence earnings management practices. Thus, the results of this study indicate that the presence of independent commissioners is not sufficient to either strengthen or weaken the influence of financial distress on earnings management; consequently, the effectiveness of the supervisory function remains influenced by various other factors in the implementation of good corporate governance.

4. CONCLUSION

The findings demonstrate that ESG Disclosure and Managerial Ownership have a negative and significant effect on Earnings Management, indicating that greater ESG disclosure and managerial ownership are

associated with lower levels of earnings management. In contrast, Financial Distress does not have a significant effect on Earnings Management. Furthermore, Independent Commissioners strengthen the negative relationship between ESG Disclosure and Earnings Management as well as between Managerial Ownership and Earnings Management, but do not moderate the relationship between Financial Distress and Earnings Management. Overall, these findings highlight the importance of effective corporate governance mechanisms in improving financial reporting quality and limiting opportunistic earnings management practices.

This study provides empirical support for Agency Theory by demonstrating that governance mechanisms can reduce information asymmetry and agency conflicts between managers and shareholders. From a practical and policy perspective, companies should improve the quality and transparency of ESG disclosure, strengthen managerial ownership as an alignment mechanism, and enhance the effectiveness of Independent Commissioners in monitoring management. For investors, ESG disclosure and corporate governance mechanisms can serve as additional considerations when assessing the transparency and reliability of corporate financial reporting. For regulators, the findings highlight the importance of strengthening ESG reporting standards and encouraging the effective implementation of independent oversight, particularly in the energy sector. These measures can support greater transparency, accountability, and credibility in corporate financial reporting.

This study is limited to energy sector companies listed on the Indonesia Stock Exchange during the 2024 observation period and examines a limited number of explanatory variables. Future research could extend the observation period and include companies from other industrial sectors to improve the generalizability of the findings. Further studies could also incorporate additional corporate governance mechanisms, alternative measures of ESG disclosure and earnings management, and other factors that may influence managerial reporting behavior. In addition, future research could examine whether the effectiveness of Independent Commissioners varies across industries, ownership structures, or different levels of financial distress, thereby providing a more comprehensive understanding of the governance mechanisms that can mitigate earnings management.

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