ABSTRACT

Awareness of environmental and social issues that is increasing today has also caused ESG disclosure efforts to grow. Transparency from ESG disclosures can reduce profit management practices but can also potentially be a greenwashing tool. The relationship between ESG disclosure and profit management practices requires further exploration so this study aims to examine the relationship of mutual influence. Profit management is proxied with accrual earnings management (AEM) and real earnings management (REM). The predictor variables used in the study included age of firm, board of commissioners size, firm size, and leverage.

The research uses the purposive sampling method on non-financial sector companies listed on the IDX in 2019-2023. The processed data is panel data sourced from the www.idx.co.id website and the Bloomberg database which was collected using documentation methods and literature studies so that 67 companies met the criteria of the research sample. Analysis in the reciprocal relationship was carried out using a simultaneous equation model with the Ordinary Least Square (OLS) and Two-Stage Least Square (2SLS) methods.

The simulity and exogenicity tests showed that a reciprocal relationship occurred between ESG and REM disclosure, while the ESG and AEM disclosure relationship was only unidirectional. Regression analysis of the relationship between ESG and AEM disclosures using the OLS method showed that ESG disclosure had a significant negative effect on AEM, but AEM did not have a significant influence on ESG disclosure. The simultaneous relationship between ESG and REM disclosure was analyzed using the 2SLS method, showing that ESG and REM disclosure had a significant negative mutual influence.

Keywords: *ESG disclosure, accrual earnings management, real earnings management, simultaneous equations, two stage least square*