ABSTRACT

This study aims to analyze the influence of environmental, social, and governance (ESG) performance, both aggregated and per pillar, on real earnings management (REM), and to examine the role of the proportion of independent commissioners as a moderating variable. This study used 287 company data observations analyzed using panel data regression with a random effects model.

The results showed that aggregate ESG performance had no significant effect on REM. More specifically, ESG performance in the environmental and social pillars also showed no significant effect on REM. This finding indicates that companies' ESG practices, particularly those related to environmental and social aspects, have not been able to limit real earnings management practices. Conversely, ESG performance in the governance pillar showed a positive and significant effect on REM, indicating that improved governance performance is accompanied by increased real earnings management practices.Furthermore, the results showed that the proportion of independent commissioners was unable to moderate the relationship between ESG performance, either aggregated or per pillar (environmental, social, and governance), and REM.

This research implies that ESG implementation, particularly in governance aspects and the role of independent commissioners, is still suboptimal in curbing the practice of real activity manipulation. Therefore, it is necessary to improve the effectiveness of oversight mechanisms and the quality of ESG implementation within companies.

***Keywords**: Real Earnings Management, ESG Performace, Proportion of Independent Commissioners, Agency Theory*