

CHAPTER V CONCLUSIONS AND IMPLICATION

A. Conclusion

This study aims to analyze the effect of Environmental, Social, and Governance (ESG) disclosure, Corporate Social Responsibility (CSR) cost, and profitability (Return on Assets/ROA) on earnings management in mining companies listed on the Indonesia Stock Exchange during the period 2022–2024. The analysis was conducted using panel data regression with the Fixed Effect Model (FEM), which was selected as the best model based on the results of the Chow test and the Hausman test.

Based on the empirical testing results and discussion in Chapter IV, the conclusions of this study can be formulated as follows:

1. ESG disclosure does not have a significant effect on earnings management. These results indicate that the level of ESG disclosure in mining companies has not been able to become an effective mechanism in suppressing earnings management practices. Considering that the model used is a Fixed Effect Model, these findings indicate that changes in the level of ESG disclosure within the same company over time are not statistically related to changes in earnings management practices.
2. The results indicate that CSR expenditures do not have a statistically significant effect on earnings management. This suggests that the level of

CSR spending by mining companies does not significantly influence managerial behavior in terms of earnings manipulation.

3. The findings demonstrate that profitability, as measured by Return on Assets (ROA), has a significant negative effect on earnings management. This indicates that firms with higher profitability tend to engage less in earnings management practices. Notably, this result represents the most robust and consistent finding of the study, remaining statistically significant even after controlling for firm-specific fixed effects through the Fixed Effect Model.

B. Research Implications

1. Theoretical Implications

The findings of this study offer several theoretical contributions to the advancement of accounting and sustainability accounting research. Specifically, the absence of a significant relationship between ESG disclosure, CSR expenditure, and earnings management lends support to legitimacy theory, which suggests that sustainability reporting may function primarily as a symbolic mechanism to satisfy external stakeholder expectations, rather than reflecting substantive changes in financial reporting practices.

Second, the results of this study support agency theory, particularly in explaining the role of profitability as an effective disciplinary mechanism. High profitability has been shown to reduce management's incentive to engage in earnings management because the pressure to meet performance targets is lower. Thus, this study confirms that agency conflicts in profit reporting are more sensitive to financial performance conditions than to the level of sustainability disclosure.

2. Practical Implications

For the management of mining companies, the evidence from this study indicates that simply increasing ESG disclosure or allocating higher CSR expenditures does not automatically mitigate the risk of earnings management. Accordingly, it is essential for companies to ensure that ESG and CSR initiatives are not limited to administrative compliance or superficial reporting, but are meaningfully embedded within the corporate governance framework and internal control mechanisms, especially in relation to financial reporting processes.

From the perspective of investors and capital market analysts, the results suggest that non-financial metrics, including ESG disclosure and CSR costs, should be interpreted with prudence. Investors are advised against using ESG disclosure in isolation as a proxy for earnings quality. Instead, they should maintain a focus on fundamental financial indicators, particularly profitability, when evaluating the likelihood of earnings management and assessing the overall quality of corporate performance.

C. Policy Implications

For regulators, particularly the Financial Services Authority (OJK) and the Indonesia Stock Exchange (IDX), the results of this study indicate the need to increase focus on the quality and substance of ESG disclosure, rather than merely on quantity or formal compliance with regulations. More effective sustainability regulations need to be accompanied by evaluation and assurance mechanisms that can ensure that ESG disclosures reflect actual governance and accountability practices.

D. Research Limitations

This study has several limitations that need to be considered when interpreting the results:

1. This study only focuses on companies in the mining sector, so the results cannot be directly generalized to other industrial sectors.
2. ESG disclosure measurement uses a quantitative disclosure index, which does not fully capture the quality, depth, and effectiveness of ESG implementation.
3. The measurement of CSR using CSR costs has limitations because the amount of costs does not always reflect the quality or real impact of CSR programs.
4. Earnings management in this study is measured using an accrual-based approach, so it does not cover earnings management practices based on real activities.

E. Recommendations

Based on the results and limitations of this study, several recommendations for future research are as follows:

1. Future research should expand the scope of the study to other industrial sectors in order to gain a more comprehensive understanding of the relationship between ESG, CSR, profitability, and earnings management.
2. Future research could combine accrual-based and real activity-based earnings management measurements to provide a more comprehensive picture of earnings management behavior.
3. The addition of corporate governance variables, such as institutional ownership, audit quality, and audit committee effectiveness, is recommended to enrich the model and improve the explanatory power of the research.

