

ESG DISCLOSURE AND ITS EFFECT ON EARNINGS QUALITY

DIVULGAÇÃO ESG E SEU EFEITO NA QUALIDADE DOS LUCROS

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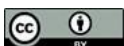
The authors declare that there is no conflict of interest

Abstract

This study examines the impact of sustainability disclosure, which includes environmental, social, and governance (ESG) dimensions, on earnings quality among companies listed on the Indonesia Stock Exchange (IDX) during the period 2018–2022. A quantitative approach was employed using multiple regression analysis. The findings reveal that environmental disclosures do not have a significant effect on earnings quality, whereas social and governance disclosures show a positive and significant influence. The results provide theoretical contributions by extending stakeholder and legitimacy theories within the context of an emerging market. Practically, these findings suggest that companies should strengthen the substance of social and governance reporting while improving the quality of environmental disclosure to ensure greater relevance and independent verification. Policy implications have also emerged for regulators to enhance ESG reporting standards by developing clearer sectoral guidelines and implementing third-party assurance, particularly in terms of environmental aspects. This study has certain limitations, including a relatively short observation period and a sample restricted to companies operating in Indonesia. Future research should expand the study period, incorporate mediating or moderating variables, and employ qualitative approaches to explore the

Resumo

Este estudo analisa o impacto da divulgação de sustentabilidade, que inclui as dimensões ambiental, social e de governança (ESG), sobre a qualidade dos lucros das empresas listadas na Bolsa de Valores da Indonésia (IDX) durante o período de 2018 a 2022. Foi empregada uma abordagem quantitativa utilizando análise de regressão múltipla. Os resultados revelam que as divulgações ambientais não têm efeito significativo sobre a qualidade dos lucros, enquanto as divulgações sociais e de governança apresentam uma influência positiva e significativa. Os achados oferecem contribuições teóricas ao ampliar as teorias dos stakeholders e da legitimidade no contexto de um mercado emergente. Na prática, esses resultados sugerem que as empresas devem fortalecer o conteúdo dos relatórios sociais e de governança, ao mesmo tempo em que melhoram a qualidade da divulgação ambiental para garantir maior relevância e verificação independente. Também surgem implicações políticas para que os reguladores aprimorem os padrões de relatório ESG, desenvolvendo diretrizes setoriais mais claras e implementando auditorias de terceiros, especialmente em relação aos aspectos ambientais. Este estudo apresenta certas limitações, incluindo um período de observação relativamente curto e uma amostra restrita a empresas que operam na



substantive aspects of ESG disclosure in greater depth. Overall, this study is expected to serve as a reference for companies, investors, and policymakers in promoting sustainability transparency that supports reliable earnings reporting.

Keywords: Earnings Quality. Environmental Disclosure. ESG Disclosure. Governance Disclosure. Social Disclosure.

Indonésia. Pesquisas futuras devem ampliar o período de estudo, incorporar variáveis mediadoras ou moderadoras e empregar abordagens qualitativas para explorar com maior profundidade os aspectos substantivos da divulgação ESG. De forma geral, espera-se que este estudo sirva como referência para empresas, investidores e formuladores de políticas na promoção da transparência em sustentabilidade que apoie relatórios de lucros mais confiáveis.

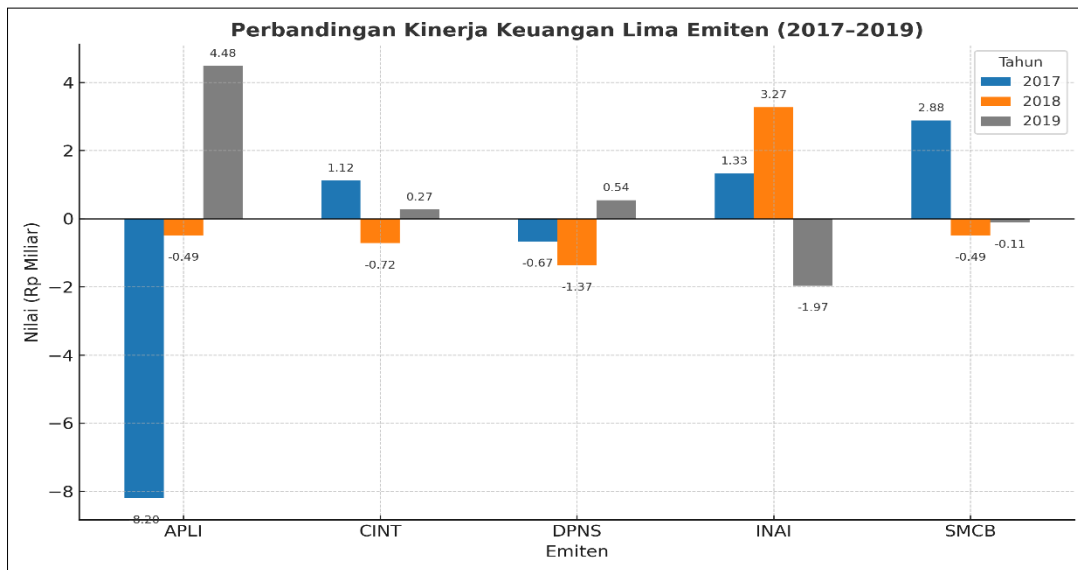
Palavras-chave: Divulgação Ambiental. Divulgação de Governança. Divulgação ESG. Divulgação Social. Qualidade dos Lucros.

1 INTRODUCTION

1.1 Background of the study

Earnings quality is one of the main indicators used by investors, creditors, and other stakeholders to assess the financial health and credibility of a company's financial statements. Earnings quality reflects a company's ability to generate profits that are sustainable and free from accounting manipulation or distortion, which may mislead users of financial statements. Therefore, improving earnings quality is the main focus in financial reporting practices and capital market supervision (CHRISTIANA; PURNAMA; ARDILA, 2020; RESTUNINGDIAH; SIDHARTA, 2023).

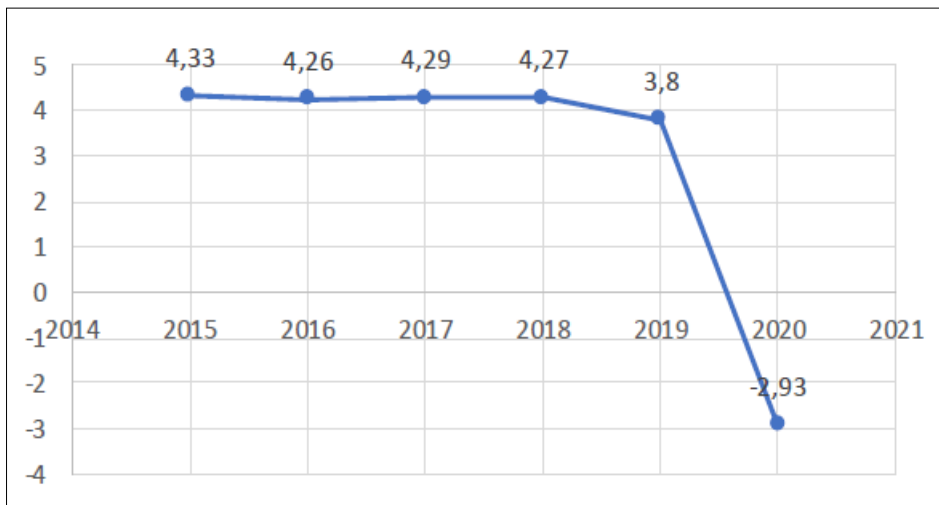
The income statement is one part of the financial statement that attracts the most attention and often awaits information. The earnings quality presented is the main highlight for users of financial statements, especially those who have high hopes of achieving high earnings. Companies with good earnings quality have consecutive and stable earnings (HASTUTI; HUTAMA, 2021; LISTYAWAN, 2017). However, it was found that manufacturing companies did not have stable earnings; therefore, the quality of manufacturing companies' earnings was questioned. The earnings quality data for several manufacturing companies during 2017-2019, which is measured using the earnings quality proxy, can be seen in **Figure 1**.

Figure 1*Earnings Quality of Some Manufacturing Companies*

Source: Processed Data (2021)

Figure 1 shows five manufacturing companies that do not have a stable profit quality. The five companies tended to experience fluctuations in profits during the 3-year research period from 2017 to 2019. Data show that APLI is one of the manufacturing companies that experiences extreme profit inconsistency, where in 2017 APLI achieved a profit of -8.20, then in 2018 reached a profit of -0.49, and in 2019 APLI achieved a profit of 4.48. The data proves the lack of profit quality owned by some manufacturing companies.

This research was conducted on manufacturing companies because of the phenomenon of unstable profit quality. In addition, the Central Statistics Agency (BPS) said that the processing or manufacturing industry declined throughout 2019, so this needs to be a concern, considering that manufacturing is one of the sectors that support the Indonesian economy. Data on the growth rate of the manufacturing industry in Indonesia are shown in **Figure 2**.

Figure 2*Growth Rate of Indonesia's Manufacturing Industry*

Source: Processed Data (2021)

Figure 2 shows that the manufacturing industry throughout 2019 declined compared to the manufacturing industry throughout 2018. In 2019, the manufacturing industry fell to 3.8% when compared to the growth of the manufacturing industry in 2018, which was 4.27%. Therefore, companies need to evaluate and improve these conditions so that the quality of their profits remains stable and can even increase, so that investors are interested in investing in the company (LESTARI, 2020). The phenomenon of slowing the growth of the manufacturing industry and the instability of profit quality in manufacturing companies has led to interest in researching the factors that affect the rate of earnings quality.

Earnings quality is an important indicator for evaluating a company's financial performance. High-quality profits reflect real economic conditions and can be relied upon by investors, regulators, and other stakeholders in decision-making. In contrast, low profit quality can be an indication of the manipulation of financial statements or uncertainty that can be detrimental to stakeholders. Low earnings quality is often associated with increased uncertainty regarding the financial information presented by the company, which can lead to divergences of opinion among investors (ABDEL-MEGUID *et al.*, 2019). In the context of increasingly transparent markets, the evaluation of profit quality is becoming increasingly important because reliable financial information is the basis for sustainable investment decision-making and effective risk management.

Earnings quality can be affected by several factors. This study examines the factors that affect earnings quality in manufacturing sector companies listed on the Indonesia Stock Exchange (IDX) for the 2017-2021 period. These factors include environmental, social, and governance (ESG) disclosure.

As awareness of sustainability issues increases, ESG disclosure is becoming increasingly important in corporate reporting. ESG disclosure not only provides an overview of a company's non-financial performance related to ESG aspects, but is also believed to increase transparency and reduce earnings management practices. Transparent ESG reporting enables stakeholders to make informed decisions and contributes to the creation of responsible businesses.

Various empirical studies show that ESG disclosure, individually or simultaneously, has the potential to improve earnings quality. However, the results of this study still show considerable variation, mainly influenced by institutional factors, corporate culture, and corporate governance, which vary between regions and countries. Therefore, it is important to conduct a more in-depth study that examines how ESG disclosures interact with and affect earnings quality in specific contexts.

This study aims to provide an in-depth empirical contribution to the relationship, particularly in emerging markets, where the ESG reporting process is still in its development stage and faces its own challenges. The results of this research are expected to provide useful recommendations for regulators, practitioners, and academics to improve the quality of financial reporting.

2 LITERATURE REVIEW

2.1 Environmental disclosure

A study by ALBITAR *et al.* (2020) examines the relationship between ESG disclosure and a company's financial performance, and how this relationship is influenced by the existence of Integrated Reporting (IR) introduced in 2013. This study examines how ESG disclosures affect company performance before and after IR and analyzes the role of moderators of corporate governance mechanisms, such as ownership concentration, gender diversity on the board of directors, and board size. The data used were from companies in the FTSE 350 index from 2009 to 2018. The results of this

research show that ESG disclosure has a positive relationship with company performance both before and after IR is introduced. Companies that voluntarily engage in IR tend to exhibit better financial performance. Governance mechanisms, such as concentrated ownership, gender diversity, and board size, affect the strength of the relationship. However, criticisms have arisen regarding the possibility of other uncontrolled factors that also affect the results or the limitations of correlation data, as the exact cause-and-effect relationship. In addition, the results obtained depend on the statistical analysis methods used and the interpretation of the data of certain companies in the UK.

GERGED (2021) investigates the influence of corporate governance structures on corporate environmental disclosure (CED) in emerging markets. The study finds that stronger corporate governance mechanisms, such as board independence and ownership concentration, positively affect the level of environmental information disclosed by companies operating in these markets. DEEGAN (2002) highlights the importance of providing information to the public regarding a company's environmental policies, activities, and performance. This includes disclosures on environmental risks, internal policies, and material expenditures or revenues, which are all critical factors influencing a company's financial outlook (BIRKEY *et al.*, 2016).

DINCER (2011) and LEHMAN and KURUPPU (2017) emphasize that such environmental disclosures hold relevance for investors, creditors, and shareholders concerned with sustainability, given their broader economic and social implications. CHEN, CHO, and PATTEN, as well as LU and ABEYSEERA (2016), note that, theoretically, these disclosures can serve as legitimacy mechanisms. However, they also warn that such disclosures may be opportunistically exploited to obscure earnings management practices. From a practical standpoint, corporate environmental disclosure can enhance a company's reputation, reduce capital costs, and strengthen its competitive position.

ALI, FRYNAS, and MAHMOOD (2017) highlight the importance of tracking environmental and earnings quality reporting in countries like Iran, which possess unique characteristics in terms of capital market development and sociopolitical and religious contexts. In Iran, social and environmental disclosures remain voluntary, unlike the mandated practices seen in developed countries. This setting offers a valuable opportunity to deepen the study of voluntary disclosure in developing nations. A notable distinction exists between developed and developing countries regarding social and environmental

reporting, as public pressure for transparency tends to be significantly lower in the latter. Environmental disclosure reflects a company's openness about the environmental impact of its operations and is considered crucial by investors and regulators as a marker of corporate responsibility and transparency. On the other hand, earnings quality refers to the extent to which reported profits truly represent the firm's economic performance. Notably, companies with robust environmental reporting practices often exhibit higher financial reporting credibility, indicating a strong link between environmental disclosure and earnings quality.

AMUTHA *et al.* (2020) conducted research on corporate social responsibility (CSR) practices at ITC Limited, one of India's largest private companies, focusing on how the company integrates social and environmental concerns into its business operations. ITC has voluntarily adopted the triple bottom-line framework to build economic, social, and environmental capital, with structured CSR initiatives in social forestry, conservation, sustainable agriculture, education, empowerment, and health. Similarly, MITTAL, JOSHI, and YADAV (2025) examined the impact of CSR on consumer purchase intentions among 300 Indian consumers and found that CSR dimensions: economic, environmental, legal, and philanthropic, positively influence purchase decisions. SCHOLTENS and KANG (2013) also emphasized that in Asia, weak legal enforcement remains a major challenge, underscoring the need to enhance CSR practices in the region.

Further supporting the relationship between environmental reporting and earnings quality, HA *et al.* (2020) studied Malaysian firms and found that environmental disclosure was positively associated with earnings persistence, a key indicator of profit quality. Their results suggest that companies demonstrating environmental commitment tend to produce more stable and consistent profits, reinforcing the credibility of financial reports. ALIPOUR *et al.* (2019) found similar outcomes in Iran, where environmental disclosure was positively linked with earnings quality using earnings persistence and accruals quality measures. These findings underscore that robust environmental disclosure can reduce earnings manipulation and improve corporate accountability, especially in emerging markets. Accordingly, regulators are encouraged to establish minimum environmental reporting standards.

YAN (2024) examined companies in China and concluded that comprehensive environmental disclosure improves both the quality of management reports and overall

earnings quality. The study emphasized that transparent reporting fosters stakeholder trust in financial data, suggesting that environmental reporting enhances not only environmental credibility but the entire corporate reporting ecosystem. PEREIRA *et al.* (2023), using a sustainability reporting index based on the Global Reporting Initiative (GRI), demonstrated that in Portugal, environmental disclosure contributed more significantly to earnings persistence than leverage, highlighting environmental reporting as a stronger mechanism for mitigating earnings manipulation than financial stress.

However, not all findings align uniformly. EKSANDY and MILASARI (2019), in their study of Indonesian firms, reported that environmental disclosure had no significant effect on earnings quality. This discrepancy may stem from inconsistent reporting standards and minimal regulatory pressure, which may lead companies to disclose environmental information merely as a formality. Similarly, research by DURLISTA and WAHYUDI (2023) on coal mining companies listed on the IDX between 2017–2022 revealed that environmental disclosure positively influenced operational and financial performance. In contrast, SURBAKTI (2023) found that environmental policy, pollution, energy, and finance did not significantly affect earnings quality among companies on the IDX from 2019 to 2021.

REZAEE and TUO (2019) conducted empirical research on ESG disclosures from 1999 to 2015, showing that the quality of sustainability disclosures can enhance the positive relationship between innate earnings quality and the volume of sustainability reporting while reducing the negative relationship between discretionary earnings quality and disclosure quantity. Meanwhile, MAR'ATI and DARSONO (2023), analyzing 13 LQ45 companies from 2015–2019 in Indonesia, concluded that environmental disclosure significantly improved economic performance, including profitability and stock prices, whereas environmental performance negatively impacted these outcomes. Their findings suggest that effective disclosure builds investor trust and reputation, which ultimately boosts firm value.

Lastly, LIN and QAMRUZZAMAN (2023) found that large American firms with better financial performance tend to engage more in environmental disclosure and show greater environmental commitment. While environmental disclosure can enhance financial performance, in some instances, it may reduce stock returns. The link between environmental disclosure and financial performance is therefore nuanced and influenced

by factors such as institutional settings and ownership structures, as observed across major companies, including those listed in the Forbes 500 and in China.

2.2 Social disclosure

Social disclosure is a different ESG disclosure that reflects a company's social responsibility towards employees, different, and other stakeholders. Earnings quality refers to the extent to which reported profits reflect a company's real and sustainable economic performance. In the different of modern governance, good social disclosure is believed to increase transparency and lower earnings management practices, thereby improving the quality of financial information produced.

DENTCHEV (2004), HANIFFA and COOKE (2005), and MCWILLIAMS and SIEGEL (2000) emphasize that every company bears the responsibility of considering the social impacts of its business activities for the benefit of its stakeholders. In different years, business actors have increasingly integrated social concerns into the planning and implementation of their corporate strategies. NINGWATI, SEPTIYANTI, and DESRIANI (2022) explain that social disclosure is an integral different ESG disclosure, representing a company's social responsibility toward employees, different, and other stakeholders. ANWAR (2000) defines earnings quality as the degree to which reported profits reflect the company's actual and sustainable economic performance. Within the different of modern corporate governance, sound social disclosure is expected to enhance transparency, reduce the likelihood of earnings management, and thereby improve the quality of financial information. This approach reflects the recognition that long-term corporate success hinges not solely on financial achievements but also on the company's broader contributions to societal well-being.

KIM, PARK, and WIER (2012) examine the relationship between earnings quality and CSR, finding that firms actively engaged in CSR tend to exhibit greater transparency in financial reporting and are less likely to manipulate earnings. Similarly, WIDAYANTI *et al.* (2025) investigate the effect of social disclosure on stock returns in both Islamic and conventional banks, revealing that the social different ESG disclosure significantly influences stock returns in conventional banks, indicating investor confidence in more credible earnings data. GRAY, OWEN, and MAUNDERS (1987) introduce the different an unwritten social contract between companies and stakeholders such as

shareholders, investors, and employees, which mandates ethical business conduct based on mutual trust. SALEWSKI and ZULCH (2012) argue that CSR implementation serves as a means to fulfill stakeholder expectations and uphold this social contract. Companies that prioritize social responsibility tend to produce more truthful financial statements, offering a complete disclosure of their financial condition. However, PRIOR, SEPTIYANTI, and DESRIANI (2008) warn of an alternative view, where CSR may be strategically exploited by management to serve personal interests. In such cases, CSR initiatives might conceal misconduct, and ironically, more CSR disclosure could signal intensified efforts to manipulate financial statements and reduce earnings quality. Hence, the connection between CSR disclosure and financial statement transparency remains a critical topic for empirical inquiry.

ALIPOUR *et al.* (2019) offer findings from a study of 107 non-financial companies in Iran from 2011 to 2016, establishing a significant positive relationship between high-quality environmental disclosure and earnings quality. These results are crucial, as companies that demonstrate greater environmental responsibility are more likely to deliver reliable, objective, and ethically sound information to stakeholders. Meanwhile, MUTTAKIN, KHAN, and AZIM (2015) explore CSR disclosure and earnings quality in emerging economies and reveal that managers may use CSR to justify profit manipulation, particularly through discretionary accruals. REZAEI and TUO (2019), in their empirical study covering 1999 to 2015, find that the quality of sustainability disclosures can strengthen the positive relationship between innate earnings quality and the quantity of sustainability disclosures, while also reducing the negative effects associated with discretionary earnings quality. Supporting this, SANTOSO and TAN (2011) and SISWANTAYA (2022) identify a significant relationship between CSR and earnings quality among manufacturing firms listed on the IDX between 2016 and 2019, indicating that CSR positively affects corporate earnings performance. Lastly, MOHMED, FLYNN, and GREY (2019) investigate the CSR–earnings quality nexus in Egyptian companies listed on the S&P/ESG index from 2007 to 2015. They utilize the ESG score from the ESG index and three earnings quality metrics while accounting for endogeneity and inverse causality. Their results indicate a positive relationship between CSR and earnings quality, particularly for the top 30 companies with the highest CSR scores. This suggests that only companies with robust CSR commitment benefit from improved earnings quality, while those with lower CSR scores may instead

leverage CSR efforts to obscure true earnings performance, indicative of greenwashing behaviors.

2.3 Corporate governance

EL-DEEB, ISMAIL, and BANNA (2023) explain that corporate governance disclosure is a form of information disclosure carried out by a company to its stakeholders. Through this practice, companies communicate key elements such as the composition of the board of directors, organizational structure, and decision-making processes. The primary aim is to foster transparency and strengthen corporate accountability, both to shareholders and the broader public. For investors, transparency in corporate governance is critically important, as it reflects the degree of openness a company upholds, allowing external parties to exercise oversight. RESKINO (2015) reports findings from previous studies examining the relationship between governance and earnings quality, particularly in property, real estate, and building construction companies listed on the IDX during 2010–2012, encompassing 75 firms. The research concluded that governance has a significant influence on earnings quality.

MAHFUD and AMANIYAH (2023) and Utami, SURJANDARI, and AKBAR (2020) further support this notion by demonstrating that aspects of governance, such as managerial ownership and institutional ownership, affect earnings quality, whereas independent commissioners and audit committees do not significantly impact profit quality. Their analysis focused on 173 manufacturing companies listed on the IDX for the 2019–2021 period. Likewise, SOLIKHAH *et al.* (2022) reveal that governance mechanisms, particularly managerial and institutional ownership, positively influence earnings quality in 124 manufacturing firms from 2013 to 2016. However, contrasting findings are presented by SAKSESSIA and FIRMANSYAH (2020), who examine the governance–earnings quality relationship within the framework of positive accounting theory for non-financial companies listed on the IDX from 2012 to 2016. Their results show no significant relationship between governance and profit quality. Although corporate governance is expected to function as an internal control mechanism aimed at curbing earnings management and improving the reliability of reported earnings, their study finds that governance does not mitigate the effect of bonuses on earnings quality.

REZAEI and SAFARZADEH (2023), through an empirical study conducted in Iran, highlight the influence of both formal and informal governance structures on earnings quality, further reinforcing the complex interplay between governance mechanisms and financial reporting. Similarly, SEPTIARINI and SETIYAWATI (2024) provide evidence from companies listed on both the Indonesia and Malaysia Stock Exchanges during the 2019–2021 period, showing that corporate governance does have a tangible impact on earnings quality.

Figure 3

Conceptual Model

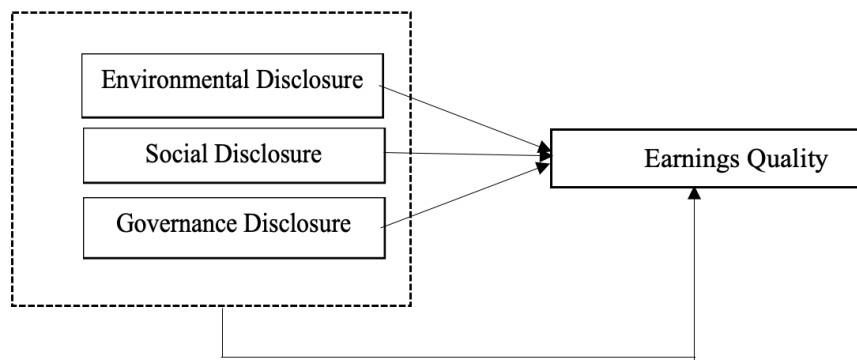


Figure 3 displays the conceptual model of this research. Based on the model and the theoretical foundations discussed, the following hypotheses are proposed:

H1: Environmental disclosure has a significant effect on earnings quality.

H2: Social disclosure has a significant and positive effect on earnings quality.

H3: Governance disclosure has a significant and positive effect on earnings quality.

3 METHODOLOGY

3.1 Research design

This study uses a quantitative approach with a causal-comparative research method to test the influence of ESG disclosure on the earnings quality of manufacturing companies listed on the IDX. The analysis was performed using multiple linear

regression. The data used are secondary data from the company's financial statements and sustainability reports for the period 2018-2022.

3.2 Source data

The main source of data for this study comes from secondary company data, namely, financial statement data audited by public accounting firms and the publication of sustainability reports of companies listed on the IDX during the 2018–2022 research period.

The sample was selected using a purposive sampling method with the criteria that companies have submitted financial statements and sustainability reports that are published in full.

3.3 Data collection methods

This study uses a documentation method in the form of financial statements audited by public accounting firms and corporate sustainability reports for the 2018-2022 period. This documentation data was obtained through the IDX (<https://www.idx.co.id/id>) and the website of each company.

3.4 Sampling

The sample was selected based on the set criteria, namely, financial statements that have been audited by public accounting firms and published sustainability reports, so that 38 companies were obtained with a total of 38 company observations \times 5 periods = 190 (WIJAYA, 2023).

3.5 Research Variable Indicators

The research variable indicators are presented in **Table 1**.

Table 1*Research Variable Indicators*

Variable	Proxy	Source
Environmental Disclosure	Environmental Disclosure Score	REVINITIF (2023)
Social Disclosure	Social Disclosure Score	REVINITIF (2023)
Governance Disclosure	Governance Disclosure Score	REVINITIF (2023)
Earnings Quality	Cash Flow/Net Profit	WHITELOCK (2015)

4 RESULTS**Table 2***Descriptive Statistics*

Variable	Mean	Standard Deviation	Minimum	Maximum
Environmental Disclosure	45.5	15.8	10.4	75.3
Social Disclosure	55.3	22.6	9.3	100
Governance Disclosure	54.6	21.8	2.9	94
Earnings Quality	54.5	23.6	9.3	100

4.1 Explanation of each variable

The results of the descriptive analysis in **Table 2** reveal varying patterns across the variables. For Environmental Disclosure, the mean score was 45.5, indicating a moderate level relative to the other variables. The standard deviation of 15.8 suggests a moderate variation from the average value, reflecting some consistency in environmental disclosure practices among the sampled entities.

In terms of Social Disclosure, the mean score was 55.3, which represents the highest average among all the variables assessed. However, this category also exhibited a relatively large spread, with a standard deviation of 22.6, implying substantial variability in how organizations engage in and report their social responsibilities.

Governance Disclosure showed a mean score of 54.6, closely aligning with the average scores of other variables and indicating a moderate level of governance transparency. The standard deviation was 21.8, which suggests a relatively moderate spread in the data, slightly smaller than that of social disclosure but still indicative of diverse governance practices.

Lastly, Earnings Quality had a mean of 54.5, again reflecting a moderate level. The standard deviation was 23.6, the highest among all variables, indicating considerable

variability in the quality of earnings reported, which may reflect differing accounting practices or financial reporting standards across the entities examined.

Table 3

Data Normality Test

		Unstandardized Residual
Normal Parameters ^{a, b}	Mean	0.000000
	Std. Deviation	21.26398418
Most Extreme Differences	Absolute	0.043
	Positive	0.043
	Negative	-0.036
Test Statistic		0.043
Asymp. Sig. (2-tiled)		0.200 ^{c, d}

Based on **Table 3**, the normality test results indicate that the data distribution is normal. The analysis was calculated directly from the dataset using the Lilliefors Significance Correction method. A significance value of 0.200 was obtained, which serves as a lower bound of the true significance. Since this value is greater than or equal to the threshold of 0.05, it can be concluded that the data meet the assumption of normality.

Table 4

The Heteroscedasticity Result

Predictor	Unstandardized Coefficient (B)	Standard Error	Standardized Coefficients (Beta)	t-value	P-value
Environmental Disclosure	0.010	0.057	0.013	0.172	0.864
Social Disclosure	-0.026	0.040	-0.047	-0.639	0.524
Governance Disclosure	0.076	0.042	0.134	1.816	0.071

Based on **Table 4**, ESG disclosures were greater than 0.05, and it was concluded that heteroscedasticity did not occur.

Table 5*Multicollinearity Result*

Predictor	Unstandardized Coefficient (B)	Standard Error	Standardized Coefficients (Beta)	t-value	p-value	Tolerance	VIF
Environmental Disclosure	0.187	0.099	0.125	1.879	0.062	0.977	1.024
Social Disclosure	0.365	0.069	0.349	5.278	0.000	0.990	1.010
Governance Disclosure	-0.235	0.072	-0.217	-3.242	0.001	0.969	1.32

Based on **Table 5**, the values obtained for environmental disclosure, social disclosure, and governance disclosure were greater than 0.05 and greater than 0.10, so it was concluded that there was no multicollinearity.

Based on the VIF value, the values obtained for environmental disclosure, social disclosure, and governance disclosure were greater than 0.05 and less than 10, so it was concluded that there was no multicollinearity.

Table 6*Regression Analysis Result*

Predictor	Unstandardized Coefficient (B)	Standard Error	Standardized Coefficients (Beta)	t-value	p-value
Environmental Disclosure	0.187	0.099	0.125	1.879	0.062
Social Disclosure	0.365	0.069	0.349	5.278	0.000
Governance Disclosure	-0.235	0.072	-0.217	-3.242	0.001

Based on **Table 6**, it is shown that environmental disclosure has a significant value of 0.062, which is greater than 0.05, so it is concluded that environmental disclosure has no effect on earnings quality. This result indicates that H1 is not supported. The significance value for social disclosure is recorded at 0.000, indicating that it falls below the 0.05 threshold. This finding leads to the conclusion that social disclosure exerts a positive and statistically significant influence on earnings quality, thereby supporting H2. Furthermore, governance disclosure has a significant value of 0.001, which means that it is less than 0.05. Thus, governance disclosure has a positive and significant effect on earnings quality, indicating that H3 is supported.

Table 7*The Results of the ANOVA Test*

Model	Sum of Squares	Df	Mean Square	F	Sig
Regression	20431.005	3	6810.335	14.823	0.000b
Residual	85457.677	186	459.450		
Total	105888.683	189			

Based on **Table 7**, a significant value of 0.000 was obtained, which was less than 0.05, so it was concluded that simultaneously, environmental disclosure, social disclosure, and governance disclosure had a positive and significant effect on earnings quality.

Table 8*Model Summary*

Model	R	R-squared	Adjusted R-squared	Std. Error of the Estimate
1	0.439a	0.193	0.180	21.43478

Based on **Table 8**, an adjusted R-squared value of 0.180 was obtained, which means that environmental disclosure, social disclosure, and governance disclosure simultaneously contributed to the influence on profit quality by 18%, while the remaining 82% was influenced by other factors.

5 DISCUSSION

5.1 Environmental disclosure has no significant effect on earnings quality

In general, environmental disclosure in Indonesia is often symbolic and dominant, using normative narratives without being accompanied by verified quantitative performance indicators. This raises skepticism from investors because the information submitted is considered less reliable in assessing actual financial performance. Several studies have supported these findings. SAEIDI *et al.* (2015) found that environmental disclosure tends not to have a significant effect on earnings quality in emerging markets because greenwashing practices are still high. Management sometimes discloses environmental information not out of true transparency, but to divert attention from earnings manipulation practices. This causes environmental disclosure not to reflect an

improvement in earnings quality, but only to the positive image of the company (SUN *et al.*, 2010).

5.2 Social disclosure has a significant effect on earnings quality

Social disclosure affirms a company's commitment to the interests of stakeholders, such as employee welfare, job safety, consumer protection, and community empowerment. This practice can minimize conflicts of interest and increase public trust, thus encouraging management to present more credible and accurate earnings information. These results are consistent with GARCÍA-SÁNCHEZ and NOGUERA-GÁMEZ (2017), who find that the disclosure of social responsibility significantly improves earnings quality by strengthening relationships with stakeholders.

5.3 Disclosure of governance has a significant effect on earnings quality

The disclosure of information related to corporate governance has been proven to have a positive and significant influence on the earnings quality generated by public companies listed on the FTSE ASEAN Star, with 180 companies observed. In this study, the earnings quality was evaluated through the Earnings Response Coefficient (ERC), while the quality of corporate governance implementation was measured based on the ASEAN Corporate Governance Scorecard (ASEAN CGSC) (FARLIANA; UTAMI, 2021).

6 CONCLUSION

This study aimed to examine the influence of ESG disclosures on earnings quality in companies listed on the IDX during the 2018–2022 period. Specifically, it sought to determine whether these three dimensions of sustainability disclosure contribute to the credibility and reliability of financial information presented by companies to stakeholders.

This study empirically confirms that environmental disclosure does not show a significant influence on earnings quality, while social disclosure, along with governance disclosure, has been proven to make a positive contribution to earnings quality in

companies listed on the IDX during the observed period. These findings underscore the urgency of integrating social and governance dimensions into sustainability reporting practices, thereby strengthening the reliability of the financial information presented.

The results of this study provide practical implications for company managers and regulators to focus disclosure policies on social and governance aspects to improve earnings quality and build investor confidence. For investors, these findings can be considered when assessing the credibility of financial statements based on the sustainability dimensions disclosed by the company.

Future research is expected to expand the scope of cross-border samples so that they can be compared with the capital market context in other countries. It is also recommended to consider moderation or mediation variables, such as financial performance, board characteristics, or managerial ownership levels, to gain a more comprehensive understanding of the factors that affect profit quality in the sustainability framework.

In conclusion, this study confirms that environmental disclosure does not have a significant effect on earnings quality, while social and governance disclosure has been proven to improve earnings quality in companies registered on the IDX within the 2018–2022 timeframe. These findings underscore the urgency of integrating social and governance dimensions into sustainability reporting practices to strengthen the reliability of financial information presented to stakeholders.

AUTHOR CONTRIBUTIONS

Conceptualization, S.S. and G.P.; Methodology, S.S.; Software, A.; Validation, S.S., G.P. and A.; Formal analysis, S.S.; Investigation, A.; Resources, G.P.; Data curation, A.; Writing—original draft preparation, S.S.; Writing—review and editing, G.P. and A.; Visualization, A.; Supervision, G.P.; Project administration, S.S.; Funding acquisition, G.P. All authors have read and agreed to the published version of the manuscript.

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Authors' Contribution

Both authors contributed equally to the development of this article.

Data availability

All datasets relevant to this study's findings are fully available within the article.

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