TRILOGI ACCOUNTING AND BUSINESS RESEARCH
Vol. 05, No. 02, Desember 2024, Hal. 126-139

WHICH PRUDENCE AND ESG DISCLOSURE BETTER REFLECT PERFORMANCE? A REVIEW OF STAKEHOLDER AND AGENCY THEORIES

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Abstract
This study aims to test and analyze the effect of Prudence and Disclosure of Environmental, Social and Governance Information on Accrual Quality of companies listed on the Indonesia Stock Exchange (IDX) for the 2017-2021 period. Independent variables in this study are prudence and Disclosure of Environmental, Social and Governance Information while the dependent variable is Accrual Quality with Leverage, Firm Size and Crash Risk as control variables. This study uses a sample of 332 companies listed on the Indonesia Stock Exchange. The analysis model used is multiple regression analysis. This research is expected to be able to provide information about the factors that affect the accrual quality of a financial reporting to be considered by investors in making decisions. The results of this study indicate that Prudence and Disclosure of Environmental, Social and Governance Information have a positive and significant influence on Accrual Quality.

Keywords: Prudence, Disclosure of Environmental, Social and Governance (ESG) Information, Accrual Quality

Histori artikel:
Diunggah: 08-12-2024
Direvieu: 08-12-2024
Diterima: 24-12-2024
Dipublikasikan: 27-12-2024

* Penulis korespondensi ✉

INTRODUCTION

Amid increasing global attention to sustainability and responsible governance, the principle of prudence has become a key cornerstone in the application of environmental, social and governance (ESG) disclosures. With growing pressure from stakeholders for transparency and better risk management, companies are required to not only prioritize short-term financial interests, but also consider long-term impacts on the environment and society.

The application of prudence and the disclosure of environmental, social and governance (ESG) information are closely related in the context of sustainability reporting and corporate governance. According to KPMG's Survey of Sustainability Reporting 2022 report, prudence and ESG refer to a company's approach to ensuring that strategic decisions consider long-term impacts, including environmental, social and governance risks. This is important to avoid reputational and financial risks. Growth in ESG reporting at the reporting level among large companies (G250) reached 96%, while at N100 it reached 79%. This suggests that more companies are integrating ESG principles in their reporting. While there is an increase in climate risk reporting, reporting on social and governance risks is often more narrative and less quantitative.

Around 77% of G250 companies use materiality assessments to identify key relevant ESG issues, reflecting a cautious approach to prioritizing ESG risks and opportunities. Targets such as net-zero emissions and carbon footprint reduction force companies to integrate prudence in their strategic planning. Overall, the application of prudence in ESG focuses on data-driven, responsible and long-term oriented decision-making, in line with stakeholder expectations and regulatory developments. This report provides important insights to understand how companies are preparing for this challenge (KPMG, 2022).

The implementation of environmental, social and governance (ESG) disclosures is motivated by several important aspects, namely global pressures on sustainability, stakeholder demands, regulatory changes, strategic benefits for companies and trends among companies. With this, ESG is no longer an option, but a strategic necessity to ensure the sustainability of the company amid complex global dynamics. ESG performance can have a direct or indirect impact on the financial aspects of the company, especially on the company's financial statements. ESG is not only about sustainability, but also a factor that can affect the stability, profitability and growth of the company. Thus, the integration of ESG in financial statements provides a holistic view of the company's performance, covering both financial and non-financial aspects (Statista, n.d.).

Financial statements are management's responsibility to the company for various activities. Profit information is the main concern in measuring the company's success or failure in achieving predetermined operational goals (Iman et al., 2017). Information about profit can be found in the company's financial statements. The financial statements consist of balance sheets, profit and loss, cash flow, and statements of changes in equity. Earnings information is also often the target or target of management engineering to prioritize their personal interests, which can harm shareholders or investors (Arthawan & Wirasedana, 2018).

Earnings quality is a measurement process used by a company to ensure that the profits generated at this time are in accordance with what was previously planned (Syanita & Sitorus, 2020). Earnings with good quality can provide information on the financial performance of a company for a long period of time without any manipulation or data security problems. According to Healy & Wahlen (2005) earnings quality is earnings that can be used to make accurate assessments and can be used as a basis for predicting future performance. In this study, the measurement of earnings quality is proxied using accrual quality.

The difference between this research and previous research is that it uses the prudence variable as the independent variable, where in this study it raises prudence as the independent variable. In financial reporting, accounting prudence is one of the prudential principles for companies not to rush to recognize assets and profits and to immediately report losses and debts that may occur (Watts, 2002). users of financial statements tend to only pay attention to earnings information but ignore where the profit comes from. The existence of prudence is expected to minimize the opportunity for managers to practice manipulation or earnings smoothing to achieve their own interests. In addition, prudence can help reduce bias in the financial statements presented.

Aristiningtyas & Fidiana (2023) conducted research to determine whether there are environmental factors that affect investment risk. Chalmers et al. (2021) explain if investors consider ESG factors in the companies they invest in. Other research shows ESG awareness has a positive impact on firm value (Giannopoulos et al., 2022). Non-financial information is a valuable resource provided by companies to increase business profitability and productivity (Mohammad & Wasiuzzaman, 2021). Other research shows that good leadership can reduce the risk of corporate financial difficulties, whether in crisis conditions or not. According to research (Citterio & King, 2021), high ESG scores have a significant relationship with risk tolerance, and when measured, each ESG component has an effect on risk tolerance. Chiaramonte et al, (2022) found a relationship between ESG scores and high social values.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory

This agency theory explains that there is a contractual relationship in the form of delegating authority in decision making by the owner (principal) to other people (agents) in managing the company (Jensen & Meckling, 1976). In agency theory, it is explained that the company is a collection of owners and agents who act in managing the use and control of these resources. The relationship between business owners and agents can trigger information asymmetry, considering that agents have more access than owners regarding company operations. Owners and agents both have the desire to obtain maximum benefits from the management of the company.

Stakeholders Theory

Freeman (1984) coined the term “stakeholder theory” which states that the ultimate goal of any business is to maximize each profit. Profitability and sustainability have become the main goals in the world of business and business, but not just profit or profit, but also the security of all assets. Triple bottom line or known as profit, people & planet is the concern of the company. Thus, every step taken by the company, in this case the management that operates the company, needs to consider and prioritize the three things above.

Prudence

Prudence, sometimes known as conservatism, is a business management or management principle (Safitri & Afriyenti, 2020). The principle of prudence is when a company does not only focus on profits or losses, but also on risks and opportunities that may occur in the future. According to (Watts, 2002) prudence is the principle of prudent financial management. The use of the prudential principle should not be complacent in understanding and managing the risks and dangers that may arise.

According to the framework IASB (International Accounting Standards Boards) states that prudence is a level of prudence in making judgments to make estimates when facing uncertainties so that assets or revenues are not overstated while expenses are fairly presented (Fahrida & Priyadi, 2021). Prudence is an action taken by management to better anticipate the situation so that there are no inappropriate profits and more quickly recognize losses.

Disclosure of Environmental, Social and Governance Information

Companies that want to increase their profits can do so by improving environmental, social and governance disclosure performance/management practices. Investors are more interested in companies that have a good reputation/image in the community, due to increased consumer loyalty to the company's products. In addition, Through POJK 51, Bank Indonesia makes it easier for businesses to obtain bank loans for environmental improvements. This is one of the factors that encourage investors to invest in businesses that have good Environmental practices so as to generate increased profits.

Companies that implement ESG practices will benefit from an increase in stock prices where the company expects investors to react positively to the good intentions of the company to the surrounding environment, increasing company value through an increase in stock prices (Mariani et al., 2018). According to research (Anggita, 2021: 70), social transparency in the workplace will increase efficiency and productivity, as well as stakeholder trust, thereby helping to mitigate company risk.

Accrual Quality

Earnings quality in this study uses accrual quality proxies. Earnings quality is a measurement process used by a company to ensure that the profit generated at this time is in accordance with what was previously planned (Syanita & Sitorus, 2020). Earnings with good quality can provide information on the financial performance of a company for a long period of time without any manipulation or data security problems. According to Healy & Wahlen (2005) earnings quality is earnings that can be used to make accurate assessments and can be used as a basis for predicting future performance. Earnings quality is also the ability of earnings to increase the truth of the company's earnings and help predict future earnings, maintain earnings stability and continuity (Bellovary, 2015).

Leverage

According to Brigham and Houston (2010: 140), leverage is the extent to which a company uses money to run a business. If a company's leverage is high, managers will use various ways to attract investors, the most common of which is to manage earnings without providing accurate financial information, resulting in a decrease in earnings quality. This will help the business world in providing accurate financial information in order to know the condition of the business, as well as if the leverage of a business is high, it will show that the condition of the business can be seen from a distance.

Firm Size

According to Brigham and Houston (2001), Firm Size can be classified based on various factors, including revenue, total assets, and total costs. Large firm size reflects that companies with high growth have easy access because they already have a strong position in the capital market so that companies that have a large size scale can easily obtain additional funds from external parties which in turn the company can get maximum profit / profit in order to increase firm value.

Crash Risk

According to Jogiyanto (2017), the stock price is the price determined by market participants formed through the sale and purchase of shares in the market based on the demand and supply of shares. Furthermore, according to Brigham (2019), the share price determines the level of share ownership. The goal is to minimize the cost of capital for the company. Kim & Zhang (2016), stock price crash risk is the risk that managers fail to provide information to investors about bad news in their company for a certain period of time, resulting in a significant decline in stock prices. This situation arises when the stock price of a company drops dramatically in a short period of time.

Research Framework

This research framework is to analyze several variables that can affect the accrual quality of the company. These variables consist of Prudence, Environmental Disclosure, Social, Governance, Firm Size, Leverage, Crash Risk and Accrual Quality. The following is a scheme of the research framework:

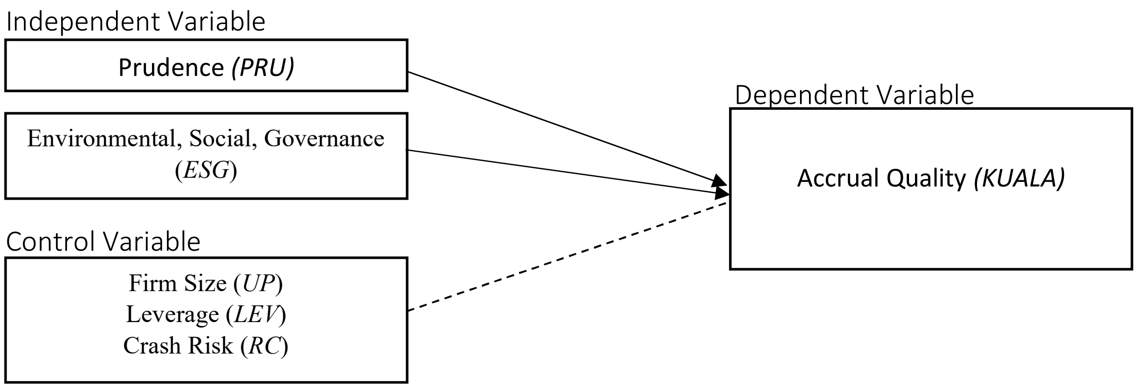

Figure 1. Research Framework

The effect of Prudence on accrual quality

Based on the results of previous research conducted by Rahmawati & Aprilia, (2022) Prudence has a significant effect on Earnings Quality, where the higher the level of prudence applied to a company, the higher the quality of earnings generated by the company. Prudence has a positive impact on ESG disclosure on future stock returns, which implies that prudent financial practices can improve market response to sustainability reporting (Fambudi et al., 2023). According to (Veronica, 2015) accounting practices using prudence have a positive and significant effect on accrual quality. Several other researchers (Fan & Zhang, 2012) and Gao (2013) suggest that prudence in accounting can improve the quality of information and lead to further disclosure of corporate accounting information in the stock market.

Based on agency theory, there are several ways to control agent actions related to accrual quality, namely by applying prudence in creating transparency to the reporting presented in the financial statements, so as to reduce distrust between principals and agents, and improve long-term relationships. Prudence in the preparation of financial statements is not over-reporting assets and not under-reporting liabilities and equity. This can be proven by the higher the prudence, the better the quality of accruals.

Based on stakeholder theory, by improving the quality of accruals with the application of prudence, the company can meet diverse expectations, and it can also improve the company's reputation and stability.

H_1: There is a positive effect of prudence on accrual quality.

The effect of environmental, social, governance information on accrual quality

Based on the results of previous research conducted by Ghozali, (2021) shows that ESG activities carried out by the company and the implementation of GCG mechanisms in the company will have a positive and significant effect on the company's financial performance. Aristiningtyas & Fidiana (2023) conducted research to determine whether there are environmental factors that affect investment risk.

Environmental Awareness can help investors make better investment decisions based on existing risks and opportunities (Chalmers et al., 2021) This provides investors with an understanding of the company environment in which to invest. From this study, it shows that there is a positive impact of LSG on earnings quality. Other research shows ESG awareness has a positive impact on firm value (Giannopoulos et al., 2022).

Based on agency theory, ESG may provide information to the principal and agent on how to invest in the company. This can help reduce conflicts of interest by facilitating the development of transparency and data-driven decision-making. Referring to stakeholder theory, ESG highlights the importance of transparency and accountability in corporate financial reports that can reduce stakeholder conflicts and increase stakeholder trust.

H_2: There is a positive effect of disclosure of environmental, social, and governance information on accrual quality.

RESEARCH METHODS

Type and Source of Data

This research is quantitative research with the causality / cause and effect analysis method in describing the results of its research. The types and sources of data in this study use secondary data, namely data taken from financial reports located on the Indonesia Stock Exchange (IDX) through the official website www.idx.co.id. The population of this study is all companies listed in 2017-2021 and processed using the eviews application. The selected sample used was 332 companies. The data used has met the criteria that have been determined by the sampling method. The criteria are as follows:

Table 1. Research sampling

No	Description	2017	2018	2019	2020	2021	Total
1	Companies listed on the Indonesia Stock Exchange	548	605	660	711	767	3291
2	Financial Sector Companies	-91	-96	-99	-103	-105	-494
3	Companies that do not publish a sustainability report	-404	-453	-495	-517	-468	-2337
4	Companies that do not have complete data	-8	-8	-13	-12	-44	-85
5	Companies with outlier values on variables	-4	-6	-7	-9	-17	-43
	Total	41	42	46	70	133	332

Accrual Quality

P. M. Dechow & Dichev (2002) proxy that the accrual of changes in working capital is the realized cash flow from operating activities in previous, current, and future years. The regression results in a residual value which is a reflection of the amount of accruals that are not related to realized cash flows, and the standard deviation is a measure of accrual quality. The higher the standard deviation value, the lower the quality of earnings and vice versa. In other words, the standard deviation of the residual value on the DD measure will be multiplied by -1 to produce an accrual measure.

$$\frac{\Delta WC_{i,t}}{A_{i,t-1}} = a_0 + a_1\left(\frac{CFO_{i,t-1}}{A_{i,t-1}}\right) + a_2\left(\frac{CFO_{i,t}}{A_{i,t-1}}\right) + a_3\left(\frac{CFO_{i,t+1}}{A_{i,t-1}}\right) + \varepsilon_{i,t}$$

Description:

$\Delta WC_{i,t}$ = Difference in working capital of company i at the end of year t and year t-1

$WC_{i,t}$ = Company i's working capital at the end of year t

$CFO_{i,t}$ = Operating cash flow of company i at the end of year t

$CFO_{i,t-1}$ = Operating cash flow of company i at the end of year t-1

$CFO_{i,t+1}$ = Operating cash flow of company i at the end of year t+1

$A_{i,t-1}$ = Company i's assets at the end of year t-1

$\varepsilon_{i,t}$ = Residual regression error

Prudence

Prudence is a principle in accounting regarding a prudent attitude to financial reporting. When a company fails to understand and manage its assets and liabilities, as well as the risks and hazards that may arise from its operations. This research has a novelty in the measurement of prudence developed by Fambudi et al., (2023) using the Heckit Model. Prudence can be calculated by the formula:

$$TAC_{i,t} = NI_{i,t} - CFO_{i,t} \quad (1)$$

$$\frac{TAC_{i,t}}{A_{i,t-1}} = a_0 + a_1\left(\frac{1}{A_{i,t-1}}\right) + a_2\left(\frac{\Delta SALES_{i,t} - \Delta AR_{i,t}}{A_{i,t-1}}\right) + a_3\left(\frac{PPE_{i,t+1}}{A_{i,t-1}}\right) + a_4\, ROA_{i,t} + \varepsilon_{i,t} \quad (2)$$

$$P - Score = \frac{DE + OCI + PROV + LKO}{A_{i,t-1}} \quad (3)$$

$$Prob\,(DA = 1) = a_0 + \beta_1 P - Score + \varepsilon_{i,t} \quad (4)$$

$$\lambda = Bias = 1/\beta_1 \quad (5)$$

Description:

$TAC_{i,t}$ = Total accruals of company i at the end of year t

$NI_{i,t}$ = Net income of company i at the end of year t

$CFO_{i,t}$ = Operating cash flow of company i at the end of year t

$A_{i,t-1}$ = Company i's assets at the end of year t-1

$\Delta SALES_{i,t}$ = Difference between company i's revenue at the end of year t and t-1

$\Delta AR_{i,t}$ = Difference between company i's receivables at the end of year t and t-1

$PPE_{i,t}$ = Fixed assets of company i at the end of the year

$ROA_{i,t}$ = The rate of return on assets of company I at the end of year t

$\varepsilon_{i,t}$ = Residual regression error

$P - Score$ = Prudential score of company i in year t

DE = Depreciation expense of company i in year t

OCI = Other comprehensive income of company i in year t

$PROV$ = Company i's inventory in year t

$DLKO$ = Contingent liabilities of company i in year t

Environmental, Social and Governance Disclosure

Environmental, Social and Governance disclosure (ESG) has become a priority in recent investment decisions. Environmental, Social and Governance disclosure (ESG) is a business practice in which the company integrates and carries out its operations in accordance with the principles of Environmental, social, and Governance disclosure (Noviarianti, 2020: 214). Companies that have social disclosure practices will benefit from an increase in stock prices by expecting investors to react positively to the good intentions of the company to the surrounding environment, increasing company value through an increase in stock prices (Mariani et al., 2018).

Disclosure of environmental, social and governance information can be measured respectively with the following formula:

$$\boldsymbol{ESG_{i,t} = \sum_{t-1}^{n} \frac{Disclosed\ items\ (ESG)}{Company\ provided\ items}}$$

Description:

ESG = Disclosure of environmental, social and governance information of company in year t

Leverage

The first control variable used in this research is leverage. In previous research, it was found that leverage has a positive effect on earnings management, and an increase in leverage will provide incentives for managers to manipulate earnings (Lazzem, 2017). Leverage is calculated from the amount of debt divided by the amount of assets.

Firm Size

Firm Size is assessed using the natural logarithm of the total assets owned by the company. This is due to the greater pressure from investors and analysts to increase profits in companies that have a large size. Firm Size is calculated from the natural logarithm multiplied by the assets owned by the company.

Crash Risk

Stock price crash risk is the risk that managers fail to provide information to investors about bad news in their company for a certain period of time, resulting in a significant decline in stock prices. This situation arises when the stock price of a company drops dramatically in a short period of time. Risk risk can be measured using the Market to Book Value Ratio by calculating the market price per share divided by the book value per share.

Data Analysis Method

In this study, the data analysis method uses Length of Stay (LOS), descriptive statistics, and classical assumptions. The research data collected is processed and then hypothesis testing is carried out to see the effect of Prudence and Disclosure of Environmental, Social, and Governance Information on Accrual Quality.

The following is the formulation of the main model used in this study:

$$KUALA_{i,t} = \alpha_0 + \alpha_1 PRU_{i,t} + \alpha_2 ESG_{i,t} + \alpha_3 UP_{i,t} + \alpha_4 LEV_{i,t} + \alpha_5 RC_{i,t} + \varepsilon_{i,t}$$

Description:

$KUALA_{i,t}$ = Accrual Quality of Company i in year t
$PRU_{i,t}$ = Prudence of Company i in year t
$ESG_{i,t}$ = ESG of Company i in year t
$UP_{i,t}$ = Firm Size i in year t
$LEV_{i,t}$ = Leverage of Company i in year t
$RC_{i,t}$ = Crash Risk of Company i in year t
$\varepsilon_{i,t}$ = Residual regression error

RESULTS AND DISCUSSION

Descriptive Statistics

The results of descriptive statistical testing in this study are presented in the following table:

Tabel 2. Descriptive Statistics

Variable	Mean	Median	Max	Min	Std. Dev.
KUALA	-0,2517	-0,1299	-0,0385	-1,1909	0,2910
PRU	-0,0008	-0,0013	0,0168	-0,0197	0,0080
ESG	0,4703	0,4477	0,8357	0,2256	0,1630
UP	13,1866	13,2185	14,0442	12,1516	0,5538
LEV	0,2901	0,2834	0,6260	0,0192	0,1774
RC	1,8416	1,2366	6,2782	0,3254	1,6057
Total Obs.			332		

Description: KUALA = Accrual quality, PRU = Prudence, ESG = Environmental, Social and Governance Information, UP = Firm Size, LEV = Leverage, dan RC = Risiko Crash

Accrual quality obtained an average of -0.2517. The maximum value for accrual quality is -0.0385 at Astra Agro Lestari Tbk in 2019 with the classification of consumer non-cyclicals. While the minimum value on this variable is -1.1909 in the company Adhi Karya (Persero) Tbk in 2020 with the classification of infrastructure. Prudence obtained a minimum value of -0.0197 owned by the Bangun Indonesia Solution Tbk company in 2019 with the basic materials classification, while the maximum value was owned by the Sillo Maritime Perdana Tbk company in 2021 with the energy classification with a value of 0.0168. The standard deviation is 0.008 and the average value is -0.0008. The variation in this variable is quite high because the standard deviation is higher than the average value.

Environmental, social and governance information obtained a minimum value of 0.2256 owned by Pan Brothers Tbk company in 2017 consumer cyclicals classification, while the maximum value is owned by Vale Indonesia Tbk company in 2021 basic materials classification with a value of 0.8357. The standard deviation of 0.1630 away from the value of 0 means that the variation is quite high and heterogeneous. The average value is 0.4703. Firm Size has a minimum value of 12.1516 or total assets of Rp. 270,669,540,064, - owned by the Betonjaya Manunggal Tbk company in 2021 basic materials sub-classification while the maximum value is owned by the Astra Internasional Tbk company in 2019 with a value of 14.0442 or equivalent to an asset value of Rp. 351,958,000,000,000, - in the industrials classification. The average value of the company in this study is 13.1866 with a standard deviation of 0.5538.

Leverage has an average value of 0.290141 or 29.01% of companies use debt financing and 68.71% financing from own capital. The standard deviation value of 0.1774 away from the value 0 means that the data variation is quite high. The minimum value is 0.0192 in the Indocement Tunggal Prakarsa Tbk company in 2017 with the basic materials classification, while the maximum value is owned by PT Waskita Karya (Persero) Tbk in 2021 infrastructure classification with a value of 0.626. Crash risk has a minimum value of 0.3254 in the Krakatau Steel (Persero) Tbk company in 2017 with a basic materials classification while the maximum value is owned by Dafam Property Indonesia Tbk in 2021 with a consumer cyclicals classification with a value of 6.2782. The standard deviation of 1.6057 away from the value of 0 means that the variation is quite high and heterogeneous. The average value is 1.2366.

The main function of hypothesis testing is to determine decisions about a population based on information that has been tested through sample data.

Table 3. Hypothesis Test

$$KUALA_{i,t} = \alpha_0 + \alpha_1 PRU_{i,t} + \alpha_2 ESG_{i,t} + \alpha_3 UP_{i,t} + \alpha_4 LEV_{i,t} + \alpha_5 RC_{i,t} + \varepsilon_{i,t}$$

Variable	Hypothesis	Coefficient	P-Value	VIF Value	Decision
C		0,924	0,000		
PRU	+	0,238	0,098*	1,774	H_1 Accepted
ESG	+	0,056	0,004***	2,045	H_2 Accepted
UP		0,051	0,000***	3,457	Significant
LEV		-0,106	0,000***	3,155	Significant
RC		-0,004	0,058*	2,914	Significant
R^2	0,589				
Adj-R^2	0,578				
F -Statistics	88,122				
Prob(F-Statistics)	0,000				
Effect	Random Effect				
Observation	332				

**** Significant at 1 percent level, ** Significant at 5 percent level, * Significant at the 10 percent level*
Description: C = Constant, PRU = Prudence, ESG = Environmental, Social and Governance Information, UP = Firm Size, LEV = Leverage, dan RC = Risiko Crash

The Effect of Prudence on Accrual Quality

Prudence has a positive influence on accrual quality, meaning that companies that have a high value of prudence will have good accrual quality. The higher the prudence and the application of the principle of prudence, the company has good earnings quality and will be able to withstand the risk of uncertainty in the future (Misnoni & Sekar Mayangsari, 2023).
Stakeholder theory reveals that by improving the quality of accruals by applying prudence or the principle of prudence, companies can meet diverse expectations, while also increasing the reputation and stability of the company. The results of this study Prudence has a positive effect on accrual quality, meaning that the higher the company's prudence level, the better the accrual quality.

Prudence increases transparency by recognizing losses earlier and delaying the recognition of profits until they are more certain. This results in financial statements that are more conservative and realistic, thus, helping to provide a more accurate understanding of the company's financial situation, which affects investment decisions. In general, accurate and transparent financial reports increase investor confidence because they feel more confident about the company's financial health (B. Safitri & Oktaviani, 2024).

The Effect of Environmental, Social and Governance Information on Accrual Quality

The results of this study indicate that ESG has a positive and significant effect on accrual quality at the 10% level. These results are in line with previous research In the context of companies with good ESG disclosures, companies' actions to comply with environmental, social, and governance regulations and standards are efforts to maintain their legitimacy in the eyes of stakeholders, including governments, communities, and investors. When companies are environmentally, socially, and governance-oriented, they are considered to have good sustainability potential by investors. In terms of risk management, companies are considered reliable because they are able to identify and assess risks with proactive practices. (Citterio & King, 2021).

Based on agency theory, it is possible for ESG to provide information to the principal and agent on how to invest in the company. This can help reduce conflicts of interest by facilitating the development of transparency and data-driven decision-making. Referring to stakeholder theory, ESG highlights the importance of transparency and accountability in corporate financial reports that can reduce stakeholder conflicts and increase stakeholder trust.

Effect of Control Variables (Leverage, Firm Size and Crash Risk) on Accrual Quality

High leverage is seen as a negative signal of high risk, which makes investors less interested in investing in the company, resulting in low stock prices and company value. The high level of debt means the greater the leverage, as a result the company will face more obstacles in obtaining additional funds due to concerns that the assets owned will not be able to cover the debt (Indrayani et al., 2021).

Firm Size is believed to be able to affect the quality of its accruals, as evidenced by various studies. Larger companies tend to show higher quality accruals due to stronger internal controls and greater access to resources, which improves the accuracy of financial reporting. In contrast, smaller firms often face challenges such as limited oversight and less sophisticated accounting systems, leading to lower quality accruals (Fitrasari, 2023).

Crash risk or the risk of an increased stock crash negatively impacts accrual quality, as firms may engage in earnings management to reduce perceived risk. This is supported by Carline et al. (2023), who found that companies with higher crash risk exhibit lower accrual quality, indicating a tendency to manipulate earnings to maintain stock prices. In contrast, Kim & Zhang, (2016) highlight that while stock crash risk affects accrual quality, the extent of this impact may vary based on firm characteristics, such as size and industry.

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