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THE ROLE OF ESG IN IMPROVING EARNINGS QUALITY: A SYSTEMATIC REVIEW OF FINANCIAL PERFORMANCE AND SUSTAINABILITY REPORTING

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Abstract

Earnings quality is a fundamental element of financial reporting that reflects a company's earnings information free from opportunistic manipulation. As regulatory pressure and stakeholder demand increase, the Environmental, Social, and Governance (ESG) framework has become a strategic tool that helps shape the integrity of financial information. This study aims to examine the role of ESG in improving a company's earnings quality through a Systematic Literature Review (SLR) approach using the PRISMA protocol. Out of 309 identified articles, 10 final articles were selected based on strict inclusion criteria from the Scopus, Web of Science, and Google Scholar databases for the 2021–2025 period. The synthesis results indicate that consistent ESG implementation curbs earnings management practices and improves the quality of financial reporting. The governance dimension proved to be the most dominant compared to the environmental and social dimensions because it directly limits management's discretion. Consistent sustainability reporting narrows the information asymmetry between management and investors, thereby organically fostering earnings integrity. These findings are relevant for public companies in Indonesia as well as regulators in strengthening more substantive and standardized sustainability disclosure policies.

Keywords: Earning Quality, Environmental, Social, and Governance (ESG), earnings management, sustainability reporting, corporate governance

INTRODUCTION

Earnings quality is a key indicator in assessing the credibility of a company's financial information. High-quality earnings reflect actual economic conditions and are free from opportunistic manipulation. In practice, earnings quality is often distorted by earnings management due to conflicts of interest and information asymmetry between management and stakeholders. This situation makes profit quality a central issue in financial reporting, particularly as companies face increasing pressure for transparency and accountability. In this context, the link to the ESG framework becomes relevant because companies with a commitment to sustainability tend to produce more reliable financial information with minimal manipulation (Primacintya & Kusuma, 2025; Sari et al., 2025).

Low earnings quality is often associated with opportunistic earnings management practices and weak internal control mechanisms. The literature on earnings quality linked to ESG and financial performance using both quantitative and qualitative approach as grown significantly. Recent research indicates that ESG disclosures in the environmental and social dimensions have been shown to significantly curb earnings management practices, as companies that actively disclose ESG information face greater reputational pressure to present financial reports transparently and responsibly (Auliya et al., 2026; Ciptaningsih & Cahyonowati, 2025).

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Empirical research in Indonesia demonstrates that board independence and ESG disclosures have a positive and significant impact on investor confidence and the overall quality of financial reporting (Freihat et al., 2024; Sari et al., 2025). The relevance of this study is growing stronger as regulatory pressure in Indonesia intensifies. The Financial Services Authority (FSA), through regulations it has issued, is actively encouraging public companies to integrate ESG aspects into their annual reports, in line with international standards such as the Global Reporting Initiative (GRI) and the IFRS Sustainability Disclosure Standards (IFRS S1 and S2), which were adopted by the Indonesian Institute of Accountants in July 2025. This regulatory framework creates significant institutional pressure on companies to improve the quality of their sustainability reporting while maintaining the integrity of the earnings reported to the market (Auliya et al., 2026; Gutiérrez-Ponce & Wibowo, 2023).This finding suggests that earnings quality is not determined solely by financial factors, but also by a company's commitment to sustainability values.

Meanwhile, systematic reviews that holistically integrates the perspectives of earnings quality, sustainability reporting, and financial performance remain limited (Ciptaningsih & Cahyonowati, 2025; Primacintya & Kusuma, 2025). Therefore, this study offers a novel contribution by conducting systematic literature review. This study not only examines the direct relationship between earnings quality and ESG, but also develops a framework that links the role of each ESG dimension to sustainability reporting mechanisms and their implications for financial information quality in a more integrated manner.

This study aims to examine and analyze the role of ESG in improving corporate earnings quality through a systematic review of the academic literature and current regulations. Specifically, this study aims to identify the ESG dimensions related to earnings quality, analyze the relationship between sustainability reporting and financial information transparency, and map the development of previous research to provide a strong conceptual foundation for the development of similar studies in the future in the Indonesian capital market.

This study is expected to provide both theoretical and practical benefits. Theoretically, this study contributes to the development of accounting and finance literature, particularly in integrating sustainability perspectives with earnings quality and agency theory in emerging markets. Practically, the findings of this study can serve as a reference for corporate management in designing ESG policies that support improvements in the quality of financial reporting. Additionally, this research provides input to regulators such as the FSA in refining sustainability disclosure regulations to promote comprehensive and sustainable accountability and transparency in financial reporting.

This study is structured into several sections that explicitly reflect the stages of a PRISMA-based systematic literature review in examining the relationship between ESG and earnings quality. The introduction outlines the research background, identifies the research gap, and states the study objectives. The second section develops the theoretical foundation by discussing ESG, earnings quality, and information asymmetry, while constructing the conceptual framework. The third section details the SLR methodology, including the search strategy, selected databases, inclusion and exclusion criteria, and the study selection process using the PRISMA flow diagram. The fourth section presents the results through both descriptive and thematic analyses of the selected studies, including classification based on ESG dimensions, earnings quality measurement proxies, and country or industry contexts. The fifth section provides a critical synthesis of the findings, highlighting relationship patterns, inconsistencies, and key influencing factors. The final section concludes by summarizing the main findings, outlining limitations, and proposing directions for future research.

LITERATURE REVIEW AND HYPOTHESIS FORMULATION

Agency Theory as a Conceptual Framework

Agency theory explains that the relationship between management as the agent and shareholders as the principal is prone to conflicts of interest due to information asymmetry between the two parties. This information asymmetry creates opportunities for management to manipulate financial figures for personal gain, to the detriment of shareholders. Comprehensive ESG disclosure is viewed as an effective strategic mechanism for narrowing this information gap, as it promotes greater transparency and accountability on the part of management toward all stakeholders (Gerged et al., 2023; Lestari & Muthmainnah, 2025).

Earnings Quality

Earnings quality is defined as the ability of reported earnings to reflect a company's true financial performance, free from opportunistic and misleading discretionary accrual practices. High-quality earnings are characterized by adequate levels of persistence, predictability, and relevance for investment decision-making. Empirical research using a sample of Indonesian public companies demonstrates that ESG activities significantly influence investors' perceptions of managed earnings; ESG plays a crucial role in moderating the relationship between earnings management and the quality of earnings information as perceived by the capital market (Lestari & Muthmainnah, 2025; Vatis et al., 2025).

The measurement of earnings quality in this study employs a cash flow-based Quality of Earnings (QOE) approach, specifically the ratio of cash flow from operations to net income. This ratio reflects the rate at which earnings are converted into actual cash flow, thereby indicating the extent to which reported earnings are supported by actual operational performance. High-quality earnings are characterized by the dominance of cash flow components over accruals, as the lower the reliance on accruals, the lower the potential for earnings management. Conversely, a discrepancy between earnings and cash flow indicates low earnings quality and an increased risk of financial information distortion. Therefore, the ratio of cash flow from operations to net income is used as a proxy that reflects the integrity and sustainability of a company's earnings (Eva & Praptitorini, 2026; Ghaisani, 2025; Sangwichitr et al., 2024).

Environmental, Social, and Governance (ESG) Framework

ESG is a non-financial evaluation framework that assesses a company's commitment to environmental, social, and governance aspects. These three dimensions reflect a company's ability to create long-term value and manage risks. ESG measurement generally refers to the sustainability reporting guidelines used by the Indonesia Stock Exchange and the Global Reporting Initiative (GRI) standards, through an analysis of disclosures in a company's sustainability reports. Each ESG indicator is identified and scored based on the level of disclosure completeness, then aggregated into an ESG index. The higher the level of disclosure, the higher the ESG score, which reflects the quality of the company's sustainability practices. Strong ESG performance is linked to improved financial stability through reduced operational risk and strengthened investor confidence, thereby supporting the company's sustainable performance (Liu et al., 2025; Zheng et al., 2025).

The Impact of ESG Disclosure on Earnings Management

Consistent ESG disclosure has been shown to curb both accrual-based and cash-based earnings management practices, as it creates reputational pressure and stricter external oversight of corporate management behavior. An international study using 32,050 firm observations over the 2003–2022 period demonstrates that higher ESG scores significantly improve earnings quality while limiting real earnings management, with a stronger impact on small-cap firms compared to large-cap firms (Liu et al., 2025; Vatis et al., 2025).

The Role of Audit Quality in the Relationship Between ESG and Earnings Quality

Audit quality refers to the auditor's ability and independence in detecting and disclosing material misstatements in a company's financial statements to the public. In the context of ESG, high audit quality serves as a mechanism to ensure the credibility of ESG disclosures, which ultimately strengthens a company's value and integrity in the eyes of investors. Research on Indonesian non-financial companies demonstrates that effective corporate governance, including audit quality, positively influences earnings quality by reducing management's incentive to manipulate financial reporting figures (Freihat et al., 2024; Gerged et al., 2023).

Sustainability Reporting and Financial Transparency

Sustainability reporting is a disclosure tool that covers a company's economic, environmental, and social dimensions as a form of comprehensive accountability to the public and stakeholders. A bibliometric study and content analysis of 50 documents from the Scopus database identified that research trends on ESG and earnings management are developing across four main clusters: the ESG-EM relationship in developed countries, institutional factors, the emerging market context, and the integration of ESG into (Adeneye et al., 2023; Alahdal et al., 2025).

RESEARCH METHODS

This study employs a qualitative approach using the Systematic Literature Review (SLR) method, which is a systematic procedure for identifying, selecting, and synthesizing relevant scientific evidence from various literature sources in a structured and reproducible manner. The choice of this method is based on the study's objective, which focuses on mapping the development of ESG research and earnings quality, rather than testing hypotheses based on primary data. The literature selection process adheres to the PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analyses) protocol, which ensures transparency and objectivity at every stage of selecting the literature sources used (Adeneye et al., 2023; Page et al., 2021). The data sources for this study are secondary, obtained from internationally renowned databases including Scopus, Web of Science, and Google Scholar. The search keywords used include "ESG disclosure," "earnings quality," "earnings management," "sustainability reporting," and "corporate governance," combined with the Boolean operators AND and OR to maximize the scope of the search results. The publication timeframe is limited to the period from 2021 to 2025 to ensure the relevance and recency of the literature reviewed in this study (Alahdal et al., 2025).

The inclusion criteria applied include indexed international and national journal articles that discuss the relationship between ESG and earnings quality or earnings management, were published within the specified timeframe, and are available in full text. Conversely, articles that are thematically irrelevant, consist of opinions without empirical support, and publications in the form of conference proceedings that have not undergone a peer-review process were excluded from the analysis. The selection process yielded a number of articles that were then analyzed thematically to identify patterns, consistency, and inconsistencies in findings across studies (Zheng et al., 2025).

Data analysis was conducted using thematic synthesis and content analysis techniques, in which each study was categorized based on the ESG dimensions examined, the research methods employed, and the geographical context of the study. This approach enabled the researchers to draw more holistic conceptual conclusions regarding the role of each ESG dimension in earnings quality. The validity of the findings was ensured through source triangulation, namely by comparing the results of various studies that used different approaches and samples to obtain a more comprehensive and academically accountable picture (Liu et al., 2025; Vatis et al., 2025).

RESULTS AND DISCUSSION

Literature Review Process

A literature search of various international databases yielded 309 articles during the initial identification phase. After removing 102 duplicate documents, 207 articles remained and proceeded to the screening phase. Of these, 95 articles were excluded for failing to meet the thematic criteria, leaving 112 articles to be evaluated for eligibility. Following an in-depth review, 56 articles were further excluded due to methodological inadequacies (n=24) and contexts outside the topic's relevance (n=22), resulting in 10 final articles that were comprehensively analyzed.

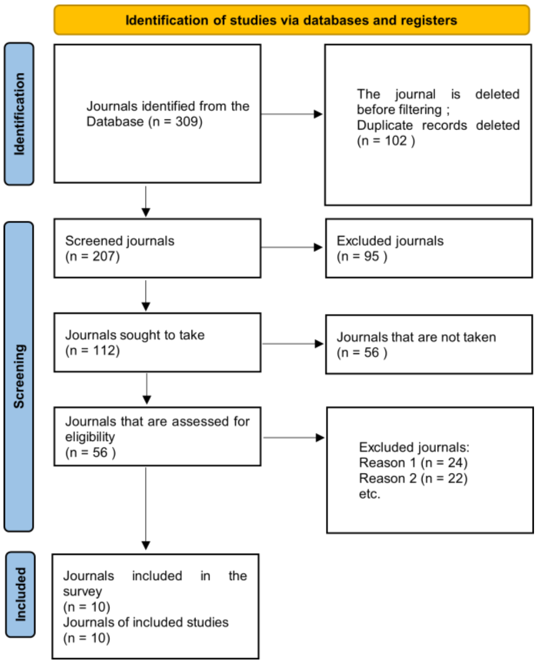

Figure 1. PRISMA Flowchart for the Literature Selection Process in ESG and Earnings Quality Studies

The Impact of ESG Implementation on Corporate Profit Quality in Indonesia

The findings from the ten studies analyzed consistently confirm that the implementation of ESG has a tangible impact on improving corporate earnings quality. Companies committed to sustainability principles tend to present more reliable financial information due to reputational pressures and stricter external oversight from various stakeholders. The strongest evidence comes from an international study with 32,050 firm-year observations spanning 2003–2022, which demonstrates that ESG significantly improves earnings quality while limiting real earnings management, with the intensity of the effect varying based on company size (Vatis et al., 2025).

ESG performance has been shown to mediate the relationship between financial reporting quality and corporate risk-taking behavior. The still-evolving institutional environment actually encourages companies to strengthen their ESG engagement as a hedge against regulatory uncertainty, which ultimately results in more prudent risk-taking behavior and more responsible financial reporting (Bachtiar et al., 2025). External oversight mechanisms also play a crucial role, as dynamic changes in ESG ratings have been shown to curb earnings management practices by increasing the attention of institutional investors and analysts, with a stronger deterrent effect on mature companies and high pollution industries (Xiao et al., 2024). The combination of internal pressure from ESG commitments and external pressure from the capital markets creates a reporting ecosystem that organically drives earnings quality toward greater sustainability.

The Most Influential ESG Factors on the Credibility of Financial Reporting

Of the three ESG pillars, the governance dimension consistently demonstrates the most decisive influence on the credibility and integrity of financial reporting. The quality of internal controls, the transparency of board oversight mechanisms, and the effectiveness of corporate governance directly influence the extent to which management can manipulate profit figures. Companies with higher ESG ratings, particularly in the governance aspect, have been shown to engage in profit manipulation based on actual transactions less frequently due to their more robust internal oversight structures, and this effect is reinforced by the quality of internal controls, external oversight, and more intensive analyst scrutiny (K. Wu et al., 2024). Furthermore, a study of 100 companies from the China ESG Top 500 Outstanding Enterprises shows that companies committed to ESG do not engage in aggressive earnings management, reflecting the organic integration of a culture of accountability as part of their sustainability values (M. Wu & Abeysekera, 2023).

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The social dimension contributes through the channel of reputational oversight. Media attention, as a manifestation of social oversight, has been shown to moderate the effect of ESG disclosure on the intensity of earnings management, particularly in companies with low media exposure, where ESG disclosure serves as a more critical signal of information quality for investors (Zhang et al., 2023). Meanwhile, the environmental dimension contributes indirectly through the formation of a long-term sustainability image that enhances reporting accountability. However, it shou be noted that the completeness of information across all three ESG pillars is an absolute requirement, as unpublished information in any one pillar has been shown to weaken the reliability of ESG scores in explaining corporate risk to investors (Sahin et al., 2022).

The Role of Sustainability Reporting in Strengthening the Link Between ESG and Earnings Quality

As seen on table 1, sustainability reporting is not merely a disclosure requirement, but a strategic tool that actively reduces information asymmetry between management and external stakeholders. When companies consistently publish standardized sustainability reports, investor confidence in the quality of reported earnings increases significantly. External market discipline mechanisms, such as the threat of a hostile takeover, have been shown to increase corporate integrity by an average of 4% for every one standard deviation increase in takeover exposure, confirming that sustainability reporting works synergistically with market pressures to produce more responsible reporting (Ongsakul et al., 2021).

Table 1. Summary of Previous Research Findings on ESG and Earnings Quality (2021–2025)

	Author	Title	Method	Sample	Data Analysis Techniques	Hypothesis Testing	Researchers' Findings	Relevance to the Topic
1	Sun et al., (2024)	How does ESG constrain corporate earnings management? Evidence from China	Quantitative – Panel Regression	Public companies listed in China	OLS regression with fixed effects; Mediation analysis; Propensity Score Matching (PSM)	ESG has a negative impact on earnings management; corporate transparency and managerial ownership moderate this relationship	Companies with higher ESG performance tend to engage in less earnings management. This effect is mediated by increased analyst scrutiny. Managerial overconfidence weakens the negative relationship	Highly relevant: directly examining the role of ESG in mitigating earnings management as a proxy for earnings quality in emerging markets (China)

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							between ESG and earnings management.	
2	K. Wu et al., (2024)	Does environmental, social, and governance rating affect firms' real earnings management	Quantitative – Panel Regression	Public companies in China	Fixed-effects panel regression; moderation analysis; robustness tests	ESG ratings have a significant negative impact on Real Earnings Management (REM)	Higher ESG ratings improve corporate governance and transparency, thereby lowering the REM. This effect is reinforced by the quality of internal controls, external oversight, analyst attention, and corporate governance	Highly relevant: demonstrating that ESG serves as a mechanism for improving the quality of financial reporting and reducing earnings manipulation
3	Ongsakul et al., (2021)	Corporate integrity and hostile takeover threats: Evidence from machine learning and "CEO luck"	Quantitative – Machine Learning & Text Analysis	Public companies in the United States	Machine learning; text analysis; PSM; entropy balancing; instrumental variable (IV)	Exposure to takeovers has a positive impact on corporate integrity	An active M&A market increases corporate integrity by 4.00% for every one-standard-deviation increase in exposure. Market discipline mechanisms encourag	Indirectly relevant: demonstrating that external governance mechanisms (part of the G pillar in ESG) contribute to the integrity of reporting and the quality of earnings

							e managers to improve corporate integrity	
4	Vatis et al., (2025)	The Impact of ESG on Earnings Quality and Real Earnings Management: The Role of Firm Size	Kuantitatif – Regresi Multivariat dengan Fixed Effects	32.050 firm-year observations dari berbagai negara, periode 2003–2022	Fixed-effects multivariate regression; analisis sub-kelompok berdasarkan ukuran perusahaan	ESG meningkatkan earnings quality dan menurunkan REM; ukuran perusahaan memoderasi hubungan tersebut	ESG meningkatkan kualitas laba dan membatasi manajemen laba riil. Hubungan positif ESG-kualitas laba lebih kuat pada perusahaan kecil, sedangkan pengaruh negatif ESG-REM lebih intens pada perusahaan besar	Sangat relevan: secara langsung menguji pengaruh ESG terhadap kualitas laba dan manajemen laba dengan bukti internasional serta mempertimbangkan peran ukuran perusahaan
5	Bachtiar et al., (2025)	Bridging Transparency and Risk Nexus: Does ESG Performance, Financial Reporting Quality, and Corporate Risk-Taking Matter? Evidence	Quantitative – Panel Regression & Structural Equation Modeling	Public companies in Indonesia (emerging market)	Panel regression; Generalized Structural Equation Modeling (GSEM)	ESG mediates the relationship between the quality of financial reporting and corporate risk-taking	ESG performance mediates the relationship between the quality of financial reporting and risk-taking behavior. Higher FRQ is	Highly relevant: demonstrating that ESG serves as a transparency mechanism that influences the quality of financial reporting in emerging markets such as Indonesia

		from Indonesia					associated with greater ESG engagement, which leads to more prudent risk-taking behavior	
6	M. Wu & Abeysekera, (2023)	Financial reporting quality of ESG firms listed in China	Quantitative – Robust OLS Regression	100 companies from the China ESG Top 500 Outstanding Enterprises (2018–2020))	Ordinary robust least squares regression; analysis of accrual quality and earnings smoothness	Determinants of financial reporting quality (financial health, governance, earnings management) were tested against the FRQ	Financial health has a negative impact on reporting quality. ESG companies have not been shown to engage in aggressive earnings management, indicating ethical behavior. Company-specific risks have a positive impact on FRQ	Highly relevant: specifically examining the quality of financial reporting by ESG companies in China and finding that ESG companies tend to be ethical in their profit reporting
7	Zhang et al., (2023)	ESG Information Disclosure and Corporate Earnings Management: Research on the Moderating Effect Based on	Quantitative – Panel Regression	A-share companies listed on the Shanghai and Shenzhen stock exchanges (2009–2021)	Panel regression; moderation analysis with media attention as a moderator	ESG disclosures have a negative impact on earnings management; media attention moderates this relationship	The higher the level of ESG disclosure, the lower the level of earnings management. Media attention reinforces the deterrent	Highly relevant: indicates that ESG disclosures as part of sustainability reporting have governance effects that reduce earnings management and

		Media Attention					effect of ESG on companies with low media exposure	improve the quality of earnings information
8	Assael et al., (2023)	Dissecting the explanatory power of ESG features on equity returns by sector, capitalization, and year with interpretable machine learning	Quantitative – Machine Learning (Interpretable ML)	European equity firm	Gradient boosting models; company-level cross-validation; analysis of the contribution of ESG features	ESG scores explain stock price returns beyond traditional equity factors; controversies are the most relevant ESG scores	ESG scores have a significant explanatory power regarding stock price returns. Better ESG scores are associated with higher returns for large-cap companies, but the opposite holds true for small-cap companies	Indirectly relevant: demonstrating that ESG performance impacts corporate value and financial returns, which are linked to the quality of reporting and investor confidence
9	Sahin et al., (2022)	Environmental, Social, Governance scores and the Missing pillar – Why does missing information matter? (ESGM)	Quantitative – Statistics & Risk Modeling	Company data from Refinitiv (multi-country)	ESG score analysis; modeling of the “Missing” (M) pillar; analysis of the relationship between risk and ESG scores	The ESGM score (including the “Missing” pillar) provides a stronger indication of corporate risk than conventional ESG scores	Unpublished ESG information (missing data) affects the reliability of ESG scores. ESG exclusion strategies based solely on low scores may be biased	Relevant: highlights the importance of comprehensive ESG disclosure for the quality of information available to investors and its implications for the quality of reporting

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							due to missing information, rather than poor ESG performance	
10	Xiao et al., (2024)	Inhibition or inducement: ESG rating changes and earnings management – Based on the perspective of external supervision	Quantitative – Panel Regression (Dynamic Perspective)	Public companies in China	Panel regression; analysis of transmission mechanisms through institutional investors and analysts	Changes in ESG ratings have a negative impact on earnings management; the effect is stronger for mature companies, polluting industries, and regions with high levels of marketization	Changes in ESG ratings can hinder earnings management by increasing the scrutiny of institutional investors and analysts. This dampening effect is stronger for mature companies and industries with high levels of pollution	Highly relevant: demonstrating the dynamic role of ESG ratings in monitoring and improving corporate earnings quality through external oversight mechanisms

The relevance of sustainability reporting to capital market valuation is also growing. A gradient boosting-based study of European equity markets demonstrates that ESG scores particularly the controversy dimension have significant explanatory power regarding stock returns beyond traditional equity factors, with opposite effects observed between large- and small-cap companies (Assael et al., 2023). These findings suggest that capital markets actively incorporate the quality of sustainability reporting into pricing mechanisms, such that companies that consistently report on sustainability receive a premium in investor confidence. On the other hand, ESG also serves as a transparency mechanism that influences risk-taking behavior, such that high-quality sustainability reports indirectly strengthen the foundation of earnings quality by reducing opportunistic behavior on the part of management (Bachtiar et al., 2025; Sun et al., 2024).

A synthesis of the entire literature is summarized as follows as seen on table 2 below.

Table 2. Quantitative Summary of Findings

Author & Year	**Dependent Variable**	**The Direction of ESG Impact**	**Significance**	**Moderation/Mediation**

1	Vatis et al. (2025)	Earnings Quality & REM	Positive / Negative	Significant	Company size
2	K. Wu et al. (2024)	*Real Earnings Management*	Negative	Significant	Internal control
3	Sun et al. (2024)	Earnings Management	Negative	Significant	Analysts' attention
4	Bachtiar et al. (025)	Reporting Quality & Risk	Positive (mediation)	Significant	—
5	M. Wu & Abeysekera (2023)	Quality of Financial Reporting	Positive	Indirectly	Ethical behavior
6	Zhang et al. (2023)	*Earnings Management*	Negative	Significant	Media attention
7	Ongsakul et al. (2021)	Corporate Integrity	Positive	Significant (4%)	Market mechanisms
8	Assael et al. (2023)	*Stock Return*	Positive / Negative	Significant	Market capitalization
9	Sahin et al. (2022)	Reliability of ESG Scores	Negative (missing)	Significant	Missing pillar
10	Xiao et al. (2024)	*Earnings Management*	Negatif	Significant	Institutional investors

** The contrast between large and small companies*

Sun et al. (2024) demonstrated through panel regression in China that companies with higher ESG performance engage in earnings management less frequently, a finding mediated by increased analyst scrutiny. K. Wu et al. (2024) used fixed-effects panel regression in China and found a significant negative correlation between ESG ratings and real earnings management, which was reinforced by the quality of internal controls. Ongsakul et al. (2021)

A study using machine learning in the United States found that the threat of a takeover increases corporate integrity by 4% per standard deviation. Vatis et al. (2025), using multivariate fixed-effects regression on 32,050 international observations, demonstrate that ESG improves earnings quality, with a stronger effect on small firms. Bachtiar et al. (2025) used GSEM in Indonesia and found that ESG mediates the relationship between financial reporting quality and corporate risk-taking. M. Wu & Abeysekera (2023) Using robust OLS on 100 Chinese ESG companies, the study found no evidence of aggressive earnings management. Zhang et al. (2023) found that ESG disclosure is negatively correlated with earnings management, with a significant moderating effect of media attention.

Assael et al. (2023) used gradient boosting in European markets and found that ESG scores significantly explain stock returns. Sahin et al. (2022) demonstrates that missing ESG information undermines the reliability of ESG scores in assessing corporate risk. Xiao et al. (2024) Using dynamic panel regression in China, the study demonstrates that changes in ESG ratings hinder earnings management through increased oversight by institutional investors.

CONCLUSION

This systematic review demonstrates that the implementation of Environmental, Social, and Governance (ESG) principles makes a tangible contribution to improving corporate earnings quality, particularly by curbing opportunistic earnings management practices. Among the three ESG dimensions, the governance aspect has proven to be the most influential in maintaining the credibility of financial reporting, as it directly impacts management's discretion. Furthermore, consistent sustainability reporting has been shown to reduce information asymmetry between management and external stakeholders, thereby organically fostering higher earnings integrity, particularly within the context of Indonesia's capital market as an emerging market.

Public companies in Indonesia should not only formally comply with ESG disclosure requirements but also substantively integrate them into their internal control systems and organizational culture. Regulators such as the OJK need to strengthen sustainability reporting standards to align with international frameworks such as the Global Reporting Initiative and the IFRS Sustainability Disclosure Standards. Further research is recommended using longitudinal primary data with a quantitative approach to test the formulated hypotheses, as well as considering moderating variables such as firm size and industry characteristics to produce findings that are more contextual and applicable to the development of sustainability policies in Indonesia.

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