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The Effect of Environmental, Social, and Governance (ESG) on Firm Performance With Earnings Management As a Moderation: Empirical Evidence Around COVID–19

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ABSTRACT: The primary goal of this research is to elucidate the influence of Environmental, Social, and Corporate Governance (ESG) performance on a company's overall performance. The research employs the ESG level as the independent variable for evaluation, which is the novelty of the study. The performance of the corporation is evaluated using various indicators, including financial performance (ROA), profitability (ROE), and Tobin's Q, which are regarded as reliant variables. Additionally, the study introduces the Modified by Jones Model of earnings management as a moderating factor. The analytical approach encompasses the application of multiple linear regression techniques. To ensure a representative sample, we conducted purposive sampling to select 120 observations from manufacturing companies listed on the Indonesian Stock Exchange that consistently maintained their ESG index during the period spanning from 2018 to 2022, including the turbulent period of the COVID-19 pandemic. The findings of this research reveal that the ESG index exerts a positive and statistically significant influence on ROA, ROE, and Tobin's Q. Furthermore, it is noteworthy that earnings management does not possess the capacity to moderate the relationship between ESG and company performance. The implications of this study are substantial, as it lends support to the application of legitimacy theory and agency theory in the context of ESG and corporate performance. However, it's important to acknowledge that the study's scope is limited to Indonesia, and consequently, the findings may not be directly applicable to other developing nations.

Keywords: Environmental Social Governance, Corporate Performance, Earnings Management, Covid 19

INTRODUCTION

The global outbreak of the COVID-19 pandemic, which commenced in early 2020, has led to substantial disruptions across multiple sectors of the economy. The impact is not only limited to health aspects but also includes significant changes in firms performance. COVID–19 has changed the way companies operate, affected financial markets, and presented new challenges for management.

The outbreak of the coronavirus pandemic has led to a significant downturn in the worldwide stock market. It is imperative to adopt strategic measures aimed at safeguarding and sustaining the performance of these businesses, thereby assisting them in surmounting the adversities presented by this crisis (Qiu et al., 2021). Many companies experienced a decline in revenue and net profit due to the economic impact of this pandemic (Chudik et al., 2020). As a result, the role of environmental, social, and governance (ESG) in firms' performance is becoming increasingly important. The impetus for this research stems from a recognition of evolving business dynamics, where environmental, social, and governance (ESG) performance has assumed an increasingly pivotal role in organizational practices and investment strategies over the pandemic period before and still ongoing.

The novelty of this research lies in its approach to assessing ESG using a level scale based on an ESG index categorized into five sections, as accessible on the official Indonesia Stock Exchange (IDX) website. ESG includes an understanding of how ESG factors, such as sustainable environmental practices, social responsibility, and good governance, can influence a firm's performance. Recent research indicates that companies with lower ESG ratings tend to exhibit improved financial performance (Cheng et al., 2023; Chininga et al., 2023). Moreover, this study introduces earnings management as a moderating variable, deepening and broadening the examination of the relationship between ESG and corporate performance before and during the pandemic.

In recent times, the performance concerning environmental, social, and governance (ESG) has garnered growing interest from investors as they seek to ensure the long-term sustainability of businesses. In an increasingly complex business context, ESG management is not only a social responsibility but also has significant implications for a firm's performance (Aqabna et al., 2023) as well as attracting investors to make investment decisions in companies that have social responsibility (De Lucia et al., 2020).

Firm performance describes how the business activities are carried out and what is achieved from each of these business activities. Firm performance itself is a measure of the success or failure of the firm in managing its business to generate profits. Companies are progressively acknowledging that robust social and environmental responsibility can yield long-term advantages, including enhanced performance. The pandemic has further wrought changes that have a bearing on the manner in which companies execute earnings management practices to navigate their ESG performance and corporate performance amidst the challenging circumstances.

As per findings by (Azizah, 2021), it was observed that the COVID-19 pandemic had an influence on earnings management within the realm of manufacturing companies in Indonesia during the first quarter. Managers exhibited greater caution in overseeing their companies, refraining from drawing attention to underperformance amid the pandemic. This reluctance could stem from their desire not to reveal their firm's actual performance. Previous research has explored accrual earnings management as a variable affecting ESG performance and as a variable moderating the connection between ESG and corporate performance (Aqabna et al., 2023; Kolsi et al., 2023). The outcomes revealed that earnings management had an insignificant positive impact on financial performance, signifying that companies may resort to earnings management to mask the adverse consequences of unsustainable practices in pursuit of long-term advantages.

The overarching objective of this study is to elucidate the repercussions of environmental, social, and governance performance on corporate performance. It also seeks to investigate the role of ESG performance in the context of the pandemic, scrutinize the impact of ESG performance on corporate performance both before and during the pandemic, and elucidate the moderating influence of accrual earnings management within this nexus.

From a theoretical perspective, this study offers valuable insights for those who rely on legitimacy theory, enhancing their comprehension of the influence of ESG performance on corporate performance. Likewise, it benefits proponents of agency theory by providing a more comprehensive understanding of the moderating function of earnings management in the context of environmental, social, and governance (ESG) performance, particularly within the framework of the COVID-19 pandemic. On a practical level, companies stand to gain considerable advantages, such as the ability to make more informed strategic decisions concerning ESG management, which can in turn lead to enhanced corporate performance. Furthermore, the research delves into the nuances of how earnings management can temper the consequences. This knowledge proves invaluable for investors and policymakers alike, empowering them to more effectively assess and evaluate companies.

Legitimacy Theory

Legitimacy is a firm's effort to develop the firm in the future to gain legitimacy by positioning itself on the social values and norms that apply in the community (Andriani & Arsjah, 2022). This theory can clearly explain ESG, firm performance, and earnings management. According to this theory, it is postulated that an organization endeavors to align its operations consistently with established societal norms and values. The core objective of these organizational endeavors is to secure the acceptance of its business activities by the local community, thereby establishing them as legitimate and non-detrimental. The culmination of these efforts is anticipated to contribute significantly to the long-term sustainability and enhanced performance of the organization.

Agency Theory

Agency theory emerged because of the division of roles between business owners as principals and business managers or management as agents. A consequence of agency issues that manifest within corporate entities involves the incorporation of social and environmental responsibilities, as per the tenets of agency theory (Jensen & Meckling, 1976). In agency theory, the argument is that it is management's job to achieve maximum profits for shareholders. Therefore, if the costs of investing in corporate social responsibility practices exceed the maximum benefits that can be obtained in terms of increasing firm value, then these costs will be passed on to shareholders (Husada & Handayani, 2021).

Environmental, ocial, and Governance (ESG)

The ESG framework, encompassing environmental, social, and corporate governance (Qodary & Tambun, 2021), plays a pivotal role in investment practices. ESG functions as a guiding framework or metric for evaluating a company's performance. The ESG rating relies on numerical values drawn from the Indonesia Stock Exchange's (IDX) official website.

Tabel 1. ESG Score Criteria

Index Score	Category	Description	Level
0-10	Negligible	Considered to have negligible ESG risk	5
10-20	Low	Considered to have low ESG risk	4
20-30	Medium	Considered to have moderate ESG risk	3
30-40	High	Considered to have high ESG risk	2
>40	Severe	Considered to have severe ESG risks	1

Source: www.idx.co.id

The Impact of Environmental, Social, and Governance (ESG) on Corporate Performance

The disclosure of environmental, social, and governance (ESG) information plays a pivotal role in the communication efforts of companies. It functions as a vital conduit through which organizations disseminate crucial information to a diverse range of stakeholders. This strategic approach to disclosure, underpinned by the principles of the legitimacy theory, is a conscious choice made by companies to nurture and fortify a positive reputation. Through ESG disclosure, companies seek to garner support and recognition from not only the broader society but also from the various stakeholders who have a vested interest in the organization's activities and impact on the environment, society, and corporate governance. In essence, this practice aims to demonstrate transparency, responsibility, and a commitment to addressing and integrating ESG factors into the core of the company's operations. It reflects a proactive approach toward engaging with stakeholders and fostering a sense of trust and credibility, which can be instrumental in sustaining the organization's long-term viability and success. This approach seeks to cultivate a positive image for the company (Zahroh & Hersugondo, 2021).

Furthermore, prior research findings demonstrate a favorable correlation between the ESG index and various performance metrics, including return on assets (Aqabna et al., 2023), return on equity (Aouadi & Marsat, 2018), and Tobin's q (Melinda & Wardhani, 2020). In accordance with the principles of legitimacy theory, companies are expected to contribute added value to all stakeholders, going beyond a sole focus on profits, and operating in accordance with societal values and norms. Consequently, the research hypothesis can be formulated as follows:

H1: ESG positively influences corporate performance

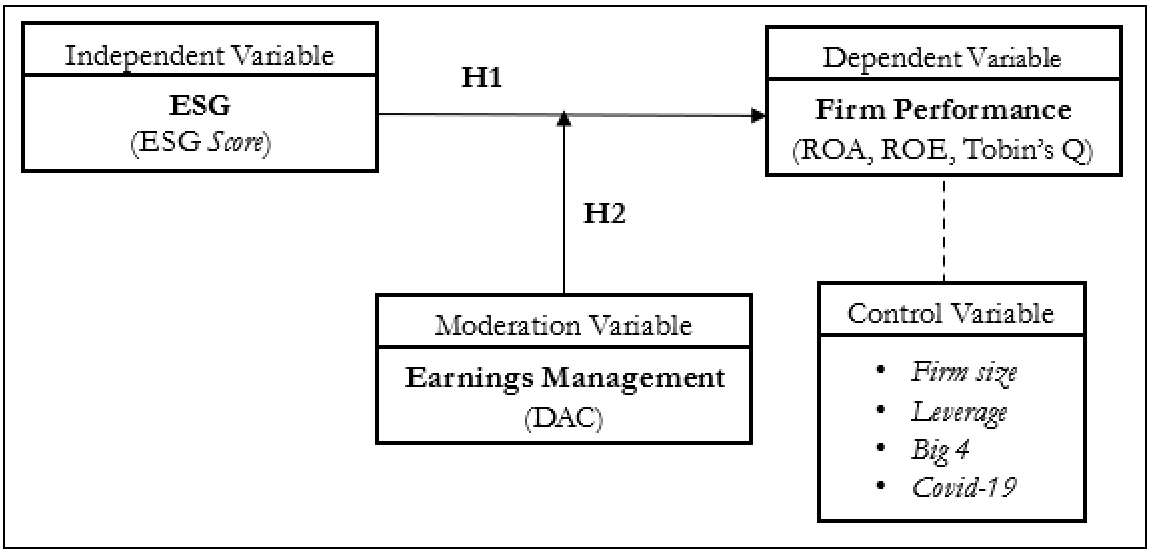
The Moderating Role of Earnings Management in the Relationship between ESG and Corporate Performance

Earnings management can be defined as a deliberate sequence of actions undertaken by an entity, both within the framework of generally accepted accounting principles and beyond, with the purpose of managing or influencing financial reports in a specific manner (Indriani et al., 2022). Furthermore, as indicated by (Aqabna et al., 2023), the moderating influence of earnings management demonstrates that corporate social responsibility has an impact on financial performance. This study also seeks to assess whether earnings management acts as a moderating factor in the relationship between ESG and corporate performance.

H2: Earnings management moderates the relationship between ESG and corporate performance.

Research Framework

Table 2. Framework of the research



METHOD

Model and Research Design

This research uses a quantitative type of research with a focus on explanatory studies through causality design to explain causal relationships between research variables in order to test hypotheses. This study unveils the impact of environmental, social, and governance (ESG) performance on the performance of companies, with the moderating role of earnings management taken into account.

Population and Sample Selection Method

The research encompasses all manufacturing enterprises that are publicly listed on the Indonesia Stock Exchange (IDX) for the duration spanning from 2018 through 2022, utilizing 2017 as the baseline year. Purposive sampling was chosen as a sample selection method for manufacturing companies that have an ESG index throughout the observation period.

Data Collection Method

This research uses secondary data from the ESGI dataset for manufacturing companies listed on the Indonesia Stock Exchange (IDX) which have ESG scores for the last five years (2018 – 2022) as well as annual reports from the website www.idx.co.id and the official websites of related companies. For financial reports using foreign currency, convert them to local currency according to the selling rate on the official Bank Indonesia website at the end of each year.

Data Processing Method

In this research, the multiple linear regression method was used with IBM SPSS Statistics 25 software. This method was applied to find out the relationship between the variable in focus (dependent variable) and other variables that function as predictors or factors that influence the focus variable.

Definition Operational and Variable Measurement

Table 3 Describe the process of operationalizing and measurement the study variables

Variables		**Measurement**	**Sources**
Dependent Variable	ROA	$ROA = Ni_{it} / Ta_{it-1}$	(Marietza et al., 2020)
	ROE	$ROE = Ni_{it} / Te_{it}$	(Alareeni & Hamdan, 2020)
	Tobin's Q	(BV of Assets$_{it}$ – BV of Equity$_{it}$ – MV of Equity$_{it}$) / Ta_{it}	(Chancharat & Kumpamool, 2022)
Independent Variable	ESG Score	Level of ESG score	ESGI Dataset
Moderating Variable	Earnings Management (DAC) The Modified By Jones	(1) $TAC_{it} = NI_{it} - CFO_{it}$ (2) $TAC_{it} / Ta_{t-1} = \beta 1\ (1/Ta_{it}) + \beta 2\ (\Delta sales_{it}/Ta_{t-1}) + \beta 3\ (PPE_{it}/Ta_{t-1}) + \varepsilon_{it}$ (3) $NDA = \beta 1\ (1/Ta_{it}) + \beta 2\ (\Delta sales_{it} - \Delta REC_{it}/Ta_{t-1}) + \beta 3\ (PPE_{it}/Ta_{t-1}) + \varepsilon_{it}$ (4) $DAC_{it} = (TAC_{it} / TA_{t-1}) - NDA_{it}$	(Sabrina et al., 2020)
Control Variable	Covid19	Dummy, Variable (0) for before pandemic covid 19 and (1) for during the pandemic	(Aqabna et al., 2023)
	Big 4	Dummy Variable (1) for companies audited by the Big 4 {PwC, Deloitte, EY, and KPMG} and (0) for otherwise.	(Hamdan et al., 2017)
	Leverage	$LEV = \text{Total Liabilities}_{it} / \text{Total Assets}_{it}$	(Ruchiatna et al., 2020)
	Firm Size	$FSize = LN\ (\text{Total Assets}_{it})$	(Suranta et al., 2014)

RESULT AND DISCUSSION

Following the application of specific purposive sampling criteria, a dataset comprising 120 observations was compiled. These observations were drawn from a pool of 22 manufacturing firms that are listed on the Indonesia Stock Exchange (IDX) and maintained a consistent ESG index throughout the observational span of 2018 to 2022.

Descriptive Statistics

The outcomes of the descriptive analysis pertaining to the dependent variable, independent variable, and control variables within this research are presented in the subsequent table:

Table 4 Descriptive Statistics of Dependent, Independent, and Control Variables

	Minimum	*Maximum*	*Mean*	*Standard Deviation*	Before Pandemic	During Pandemic
ROA	−0.030	0.467	0.098	0.085	0.107	0.095
ROE	−0.146	1.451	0.398	0.514	1.249	0.185
Tobin's Q	0.677	18.355	2.636	2.858	3.149	2.508
ESG	1.000	4.000	1.892	0.951	1.750	1.927
DAC	−0.462	0.370	0.013	0.120	0.020	0.012
Covid19	−14.035	18.401	0.697	4.692	0.910	0.644
Big4	0.000	1.000	0.600	0.492	0.000	0.750
FSize	0.000	1.000	0.833	0.374	0.833	0.833
LEV	28.836	33.655	31.173	0.999	30.998	31.217

Source: Secondary data that has been processed in 2023

Presented within Table 4, we find the descriptive statistics outlining the parameters for the dependent, independent, and control variables within the observed dataset.

In terms of return on assets (ROA), as showcased in Table 4, the data portrays a spectrum of ROA values ranging from -0.030 to 0.467, with a mean value of 0.098. The standard deviation for ROA is 0.085, implying a relatively restrained extent of diversity within the ROA variable dataset. Notably, the table underscores the phenomenon of reduced ROA levels among companies in the study sample during the COVID-19 period. In the context of return on equity (ROE), the table displays a range of values, featuring the lowest recorded observation at -0.146, the highest value at 1.451, and an average of 0.398. The standard deviation associated with the ROE variable stands at 0.514, indicating a heightened level of fluctuation within the ROE values across the study observations. Correspondingly, the table reflects the substantial decline in ROE during the COVID-19 period. Further, the table unveils insights into Tobin's Q, pertaining to the companies under scrutiny, encompassing values spanning from a minimum of 0.677 to a maximum of 18.355, with a mean value of 2.636 and a standard deviation of 2.858. This underscores the considerable diversity evident in the Tobin's Q dataset. Nevertheless, the table highlights a discernible reduction in Tobin's Q values during the COVID-19 period. As for the independent variable, Table 4 provides a snapshot of the ESG index's variability, spanning a range from 1 to 4, or, when expressed as scores, with the lowest score at 17.56 and the highest score reaching 63.25, and an average value of 1.892, or, when assessing the ESG score, it equates to 37.534. The standard deviation linked to this independent variable stands at 0.951, signifying a relatively limited degree of variance, suggesting that the employed ESG variables maintain a stable profile. Interestingly, the table highlights an increase in ESG disclosure levels observed during the COVID-19 period. With regard to earnings management, referred to as DAC, the table outlines data encompassing a minimum value of -0.462, a maximum value of 0.370, and an average value of 0.013. The standard deviation for DAC surpasses the mean value by 0.020, signifying the variability discerned across the research observations. The table shows that profit management practices experienced a decline before and during the COVID–19 period.

Hypothesis test

Tabel 5 The results of multiple linear regression of return on assets (ROA)

Dependent : ROA		Unstandardized Coefficients B	t	Sig.
1	(Constant)	.015	2.002	.048
	ESG	.031	4.441	.000
	DAC	-.047	-.633	.528
	DAC_ESG	-.001	-.380	.704

R Square	Adjusted R Square	F	Sig.
.175	.153	7.906	.000b

Dependent : ROA		Unstandardized Coefficients B	t	Sig.
1	(Constant)	.019	1.351	.180
	ESG	.032	3.828	.000
	DAC	-.022	-.214	.835
	DAC_ESG	.000	-.099	.921
	Covid_19	-.018	-1.610	.110
	Big4	.017	.729	.467

R Square	Adjusted R Square	F	Sig.
.142	.104	3.729	.004b

Dependent : ROA		Unstandardized Coefficients B	t	Sig.
1	(Constant)	.423	4.158	.000
	ESG	.034	4.993	.000
	DAC	-.088	-1.270	.207
	DAC_ESG	.001	.485	.629
	LEV	.017	.410	.682
	FirmSIZE	-.033	-3.945	.000

R Square	Adjusted R Square	F	Sig.
.280	.247	8.544	.000b

Dependent : ROA		Unstandardized Coefficients B	t	Sig.
1	(Constant)	.449	3.998	.000
	ESG	.034	5.019	.000

	DAC	-.090	-1.214	.227
	DAC_ESG	.001	.449	.654
	Covid19	-.001	-.437	.663
	Big4	.002	.089	.929
	LEV	.015	.374	.709
	FirmSIZE	-.032	-3.829	.000

R Square	Adjusted R Square	F	Sig.
.286	.240	6.183	.000b

Dependent : ROA		Unstandardized Coefficients B	t	Sig.
1	(Constant)	.132	1.303	.195
	Covid19	-.002	-.354	.724
	Big4	-.003	-.229	.820
	LEV	-.102	-3.149	.002
	FirmSIZE	-.004	-.661	.510

R Square	Adjusted R Square	F	Sig.
.134	.100	3.934	.005b

Source: Secondary data that has been processed with IBM SPSS Statistics 25 (2023)

In light of the information provided in Table 5, the results of the F-test reveal a significance (Sig.) value of 0.000. Given that this Sig. value is less than the established threshold of 0.05, it indicates that the model employed to evaluate the hypothesis is both valid and appropriate.

Regarding the results derived from the Coefficient of Determination Test provided in Table 5, it elucidates an Adjusted R Square value of 0.240, equivalent to 24%. This conveys that approximately 24% of the variations observed in the return on asset (ROA) variable can be accounted for by factors such as ESG performance, earnings accrual management (DAC), the presence of COVID-19, engagement with prominent entities (commonly known as "big 4"), company size, and leverage. Nevertheless, it is imperative to acknowledge that the remaining 76% of the variability remains unexplained within the framework of the factors encompassed by this model. This shortfall in explanation is likely attributable to external variables that were not integrated into the model.

Table 6 The results of multiple linear regression of return on equity (ROE)

Dependent : ROE		Unstandardized Coefficients B	t	Sig.
1	(Constant)	.057	.564	.574
	ESG	.133	2.933	.004
	DAC	-1.331	-.862	.391
	DAC_ESG	.041	1.038	.302

R Square	Adjusted R Square	F	Sig.
.079	.053	3.079	.031b

Dependent : ROE		Unstandardized Coefficients B	t	Sig.
1	(Constant)	.594	4.426	.000
	ESG	.056	1.299	.197
	DAC	-.033	-.036	.971
	DAC_ESG	-.067	-.142	.887
	Covid_19	-.562	-6.850	.000
	Big4	.045	.408	.684

R Square	Adjusted R Square	F	Sig.
.298	.267	9.680	.000b

Dependent : ROE		Unstandardized Coefficients B	t	Sig.
1	(Constant)	4.655	3.041	.003
	ESG	.036	.765	.446
	DAC	-.347	-0.357	.772
	DAC_ESG	.153	-.296	.769
	LEV	.558	2.163	.033
	FirmSIZE	-.147	-2.944	.004

R Square	Adjusted R Square	F	Sig.
.099	.058	2.429	.040b

Dependent : ROE		Unstandardized Coefficients B	T	Sig.
1	(Constant)	1.730	2.334	.021
	ESG	0.066	2.104	.038
	DAC	-0.524	-0.590	.556
	DAC_ESG	0.010	0.443	.658
	Covid_19	-1.062	-19.384	.000
	Big4	0.019	0.224	.823
	LEV	0.357	2.000	.048
	FirmSIZE	-0.048	-1.390	.167

R Square	Adjusted R Square	F	Sig.
.343	.301	8.335	.000b

Dependent : ROE		Unstandardized Coefficients B	t	Sig.
1	(Constant)	3.925	3.075	.003
	Covid_19	-.565	-7.118	.000
	Big4	.070	.664	.508
	LEV	.483	2.110	.037
	FirmSIZE	-.110	-2.646	.009

R Square	Adjusted R Square	F	Sig.

.335	.312	14.505	.000[b]

Source: Secondary data that has been processed with IBM SPSS Statistics 25 (2023)

Drawing insights from the data presented in Table 6, the results of the F Test reveal Sig values of 0.000. This outcome underscores the suitability of the employed model for hypothesis testing, given that the Sig value adheres to the criterion of being less than 0.05.

Concerning the Coefficient of Determination Test within Table 6, it unveils an Adjusted R Square value of 0.301, equivalent to 30.1%. This implies that approximately 30.1% of the variation observed in the return on equity (ROE) variable can be accounted for by factors including ESG performance, accrual earnings management (DAC), the presence of COVID-19, the involvement of big 4 entities, company size, and leverage. Nonetheless, it is essential to acknowledge that the remaining 69.9% of the variance remains explicable by external factors not incorporated within this equation.

Tabel 7 The results of multiple linear regression of Tobin's Q

Dependent : TobinsQ		Unstandardized Coefficients B	t	Sig.
1	(Constant)	.496	3.538	.001
	ESG	.443	3.046	.003
	DAC	-.301	-.134	.893
	DAC_ESG	.010	.009	.992

R Square	Adjusted R Square	F	Sig.
.083	.058	3.296	.023[b]

Dependent : TobinsQ		Unstandardized Coefficients B	t	Sig.
1	(Constant)	.201	1.460	.147
	ESG	.427	3.284	.001
	DAC	.868	.484	.540
	DAC_ESG	-.559	-.615	.349
	Covid_19	.141	.940	.251
	Big4	.414	1.155	.251

R Square	Adjusted R Square	F	Sig.
.121	.078	2.826	.020[b]

Dependent : TobinsQ		Unstandardized Coefficients B	t	Sig.
1	(Constant)	9.004	4.732	.000
	ESG	.510	3.796	.000
	DAC	-.280	-.141	.888
	DAC_ESG	-.005	-.005	.996
	LEV	-.438	-.485	.628
	FirmSIZE	-.762	-4.288	.000

R Square	Adjusted R Square	F	Sig.

.286	.253	8.585	.000[b]

Dependent : TobinsQ		Unstandardized Coefficients B	t	Sig.
1	(Constant)	8.287	4.278	.000
	ESG	.525	3.905	.000
	DAC	.026	.013	.989
	DAC_ESG	-.167	-.170	.865
	Covid19	-.316	-1.731	.086
	Big4	.004	.018	.986
	LEV	-.633	-.696	.488
	FirmSIZE	-.682	-3.703	.000

R Square	Adjusted R Square	F	Sig.
.308	.261	6.662	.000[b]

Dependent : TobinsQ		Unstandardized Coefficients B	t	Sig.
1	(Constant)	.001	3.503	.001
	Covid19	-.289	-1.502	.136
	Big4	-.061	-.258	.797
	LEV	-1.433	-1.550	.124
	FirmSIZE	-.529	-2.791	.006

R Square	Adjusted R Square	F	Sig.
.201	.171	6.789	.000[b]

Source: Secondary data that has been processed with IBM SPSS Statistics 25 (2023)

F Test Results from table 6 with Sig value. 0.000, then the model used is a good model for testing hypotheses (Sig. < 0.05).

The results from the Coefficient of Determination Test in Table 6 reveal an Adjusted R Square value of 0.261, equivalent to 26.1%. This suggests that approximately 26.1% of the variability observed in the Tobin's Q variable can be accounted for by the assortment of independent, moderating, and control variables included in the model. Nonetheless, it's crucial to recognize that the remaining 73.9% of the variance can be attributed to external variables that exist beyond the scope of this particular equation.

Testing and Discussion from First Hypothesis

Results from the hypothesis testing and analysis are as follows:

Hypothesis 1: Influence of ESG on Company Performance

The primary hypothesis aims to explore the impact of environmental, social, and governance (ESG) performance on a company's overall performance, utilizing return on assets (ROA), return on equity (ROE), and Tobin's Q as surrogate indicators. The findings presented in Table 5 unveil a constructive and statistically significant connection between ESG and firm performance: The ROA measure demonstrates a coefficient of 0.031, accompanied by a Sig. value of 0.000 (0.000 < 0.050), indicating that enhancements in ESG performance contribute positively to companies' financial performance, particularly concerning ROA. These outcomes are consistent with the conclusions drawn by Safriani & Utomo (2020), which assert that higher ESG ratings are linked to improved asset returns.

Likewise, ROE reveals a coefficient of 0.133, with a Sig. value of 0.004 (below 0.050), providing confirmation that ESG performance substantially elevates return on equity. These results is support the prior studies (Zhao et al., 2018). Parallel to the trends observed in ROA and ROE, ESG also exerts a constructive and significant impact on Tobin's Q, as evidenced by a regression coefficient of 0.443 and a Sig. value of 0.003 (0.003 < 0.050). In essence, the initial hypothesis is substantiated. This investigation sets itself apart from prior research (Aqabna et al., 2023; Atan et al., 2018; Kamatra & Kartikaningdyah, 2015), which did not uncover a connection between ESG and an upsurge in ROE. Consequently, it validates that ESG has a positive and noteworthy influence on company performance, as evidenced by ROA, ROE, and Tobin's Q.

Moreover, even amid the challenges of the COVID-19 pandemic, ESG scores continue to exert a positive influence on company performance. The research outcomes elucidate:

ROA displays a significant and positive impact, characterized by a coefficient value of 0.034 and a Sig. value of 0.000 (0.000 < 0.050). ROE similarly exhibits a favorable influence with a regression coefficient value of 0.066 and a significance level of 0.038 (0.038 < 0.050). Likewise, Tobin's Q maintains consistent findings, with a regression coefficient value of 0.525 and a significance level of 0.000 (0.000 < 0.050). This underscores the positive impact of ESG on firm performance during the COVID-19 pandemic, aligning with the research results observed both before and during the pandemic.

Hypothesis 2: Earnings Management Moderation of ESG and Company Performance

The second hypothesis investigates the potential moderating role of earnings accrual management (DAC) in the correlation between ESG and firm performance. The outcomes unveil the following:

Earnings management diminishes the connection between ESG and financial performance (ROA). The regression coefficient holds a value of -0.001, accompanied by a Sig. value of 0.704 (0.704 > 0.050), indicating a lack of significance. In the case of ROE, moderation strengthens the bond between ESG and firm performance, as evidenced by a regression coefficient value of 0.291 and a significance level of 56.5% (0.565 > 0.050). Earnings management also does not emerge as significant in this context. Similarly, Tobin's Q exhibits non-significant moderation, characterized by a regression coefficient value of 0.010 and a significance level of 0.992 (0.992 > 0.050). Hence, Tobin's Q fails to demonstrate significance in moderating the link between ESG and firm performance. In light of these findings, the second hypothesis is refuted, signifying that earnings accrual management (DAC) does not exert a moderating influence on the relationship between ESG and firm performance, aligning with the research conducted by (Aqabna et al., 2023), which similarly reported no impact of earnings management on the association between ESG and firm performance. This study underscores the significance of companies striving to present a favorable image amidst the challenges of the COVID-19 pandemic, despite its detrimental effects on their performance. Management frequently employs earnings management as a tactic to enhance their attractiveness to investors. Nevertheless, the results demonstrate that during the COVID-19 pandemic, earnings management failed to yield a substantial impact on a company's performance.

CONCLUSION

The primary goal of this research is to assess the potential influence of environmental, social, and governance (ESG) performance on the overall performance of companies. Furthermore, this study delves into the possible role of earnings management in shaping the connection between ESG performance and firm performance. Earlier research has demonstrated the effect of ESG on firm performance (Aqabna et al., 2023; Buallay et al., 2020). Following an extensive data analysis, the results undeniably validate that ESG performance exerts a positive and statistically significant impact on firm performance, as measured by key indicators such as return on assets (ROA), return on equity (ROE), and Tobin's Q. These findings are aligned with the principles of ESG performance, consistent with the legitimacy theory, which posits that companies aligning their operations with prevailing societal norms and values tend to achieve greater sustainability and improved overall corporate performance (Lelkes, 2016). Remarkably, even in the challenging context of the COVID-19 pandemic, ESG performance maintains a noticeable, positive, and statistically significant influence on financial performance metrics, including ROA, ROE, and Tobin's Q. Conversely, the introduction of accruals earnings management, as a moderating variable in this study, does not appear to have a significant impact on firm performance. This observation holds true even under the adverse conditions of the COVID-19 pandemic, where earnings management fails to moderate the relationship between ESG and firm performance. The outcomes of this study are consistent with the fundamental principles of agency theory, which propose that a company's efforts to optimize resource allocation for cost efficiency could potentially lead to unfavorable outcomes for firm wealth and shareholder profitability (Xaviera & Rahman, 2023).

Drawing from these conclusions, the research team suggests numerous potential avenues for future exploration. These include broadening the spectrum of variables under scrutiny, encompassing aspects tied to corporate governance, like the dimensions of the board (e.g., its size and independence). Additionally, extending the research timeline is advisable, enabling the exploration of ESG performance in the context of a company's performance across periods that precede, coincide with, and follow the COVID-19 pandemic.

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