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Sustainability report and accounting conservatism on earnings management: Evidence from Indonesia's consumer non-cyclicals sector (2021–2024)

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ABSTRACT

Earnings management is an intervention by management in the preparation of financial reports for external parties in order to smooth, increase, or decrease reported earnings. In the consumer non-cyclicals sector, which has a stable market capitalization, earnings management may be influenced by various factors, including sustainability report disclosure as a form of corporate transparency and responsibility, and the level of accounting conservatism applied. This study aims to analyze the effect of the sustainability report and accounting conservatism on earnings management in consumer non-cyclicals sector firms listed on the Indonesia Stock Exchange (IDX) during 2021–2024. Earnings management is proxied by discretionary accruals (DA) using the Modified Jones Model, the sustainability report is proxied by the Sustainability Reporting Disclosure Index (SRDI), and accounting conservatism is proxied by conservatism accruals (CONACC). Using purposive sampling, 39 firms were selected, yielding 156 firm-year observations analyzed with multiple linear regression. The results show that the sustainability report has no significant effect on earnings management ($t = -0.776$; Sig. = 0.439), whereas accounting conservatism has a negative and significant effect ($t = -14.323$; Sig. < 0.001). The Adjusted R^2 of 0.567 indicates that both variables jointly explain 56.7% of the variation in earnings management. These findings suggest that sustainability disclosure has not yet directly constrained earnings management practices, while a higher level of accounting conservatism can suppress accrual-based earnings management among consumer non-cyclicals firms in Indonesia.

Keywords: accounting conservatism; earnings management; discretionary accruals; sustainability report
JEL Classification: M41, M14

1. Introduction

Financial statements are a primary component in assessing the health and financial performance of a company. They provide comprehensive information on financial position, operating results, cash flows, and changes in equity over time, and are used by both internal parties, such as management, and external parties, such as investors, creditors, and supervisory authorities, in making strategic decisions (Sunaryo and Wondiwoi, 2025). Because of this role, financial statements are frequently used as the basis for evaluating corporate performance within an industry sector.

The consumer non-cyclicals (primary consumer goods) sector plays an important role in the Indonesian economy. Based on sectoral market-capitalization data released by the Financial Services Authority (OJK), this sector recorded a stable and rising market capitalization, growing from Rp974.31 trillion in June 2025 to Rp1,242.69 trillion in October 2025. This reflects consistent growth in a sector producing basic necessities that is relatively resistant to economic fluctuations. However, the strong pressure to maintain a stable performance image can encourage managers to engage in earnings smoothing through earnings management, particularly when accrual earnings do not meet market targets. Thus, rising market capitalization not only reflects the strength of the sector but also potentially increases the risk of earnings management, making it important to examine such practices in this sector.

As market capitalization increases, firms are required not only to demonstrate good financial performance but also to be accountable for their sustainability activities, in line with growing global awareness of Environmental, Social, and Governance (ESG) issues. Under POJK No. 51/POJK.03/2017 and SEOJK No. 16/SEOJK.04/2021, public companies are required to prepare a sustainability report, either as part of the annual report or separately. The sustainability report thus becomes an important instrument that functions not only as a communication medium but also as a form of corporate transparency and accountability to stakeholders.

From the perspective of agency theory (Jensen and Meckling, 1976), the relationship between shareholders (principals) and managers (agents) creates information asymmetry that can trigger agency problems, including earnings management by managers to influence the principals' perceptions. Both the sustainability report and the application of accounting conservatism are considered capable of suppressing accrual-based earnings management, because both mechanisms increase transparency and reduce the room for opportunistic managerial behavior. The sustainability report is believed to constrain earnings management by increasing corporate transparency (Nanda, 2025), while accounting conservatism plays an important role in reducing managers' opportunistic practices by limiting managerial discretion over the timing of revenue and expense recognition (Nurmaya et al., 2025).

Prior studies on these relationships remain inconsistent. Regarding the sustainability report, Olagunju et al. (2023), Roosyiidah et al. (2025), Alodat et al. (2024), and Iqbal et al. (2023) found a negative effect on earnings management, whereas Wibowo and Aryanindita (2025) found no effect, and Indy et al. (2025) concluded that sustainability disclosure may even be used to conceal earnings management. Regarding accounting conservatism, Ma'rifah and Suwarno (2025), Maisaroh and Ariani (2024), and Hartam and Kresnawati (2022) found a negative effect on earnings management, while Amin et al. (2022) found a positive effect. These inconsistencies constitute a research gap that motivates further empirical investigation.

This study contributes to the accounting literature by testing the effect of the sustainability report and accounting conservatism on earnings management in the consumer non-cyclicals sector, using a relatively recent observation period (2021–2024) that captures corporate reporting practices following the increased attention to sustainability reporting in Indonesia. Accordingly, this study aims to analyze the effect of the sustainability report and accounting conservatism on earnings management in consumer non-cyclicals firms listed on the IDX during 2021–2024.

2. Literature review

Agency theory and stakeholder theory

Agency theory (Jensen and Meckling, 1976) explains the relationship between principals (shareholders) and agents (managers), in which the delegation of authority combined with information asymmetry can create conflicts of interest and opportunistic behavior such as earnings management. Stakeholder theory complements this view by asserting that a firm is obliged to disclose both financial and non-financial information to its stakeholders (Erin and Bamigboye, 2022). Within these frameworks, sustainability disclosure and accounting conservatism serve as mechanisms of accountability and prudence that can reduce information asymmetry and limit opportunistic managerial actions. Within these frameworks, sustainability disclosure and accounting conservatism serve as mechanisms of accountability and prudence that can reduce information asymmetry and limit opportunistic managerial actions. Specifically, stakeholder theory underpins H_1 below: disclosing sustainability information to stakeholder’s functions as a transparency mechanism that narrows the information gap between managers and outside parties, thereby constraining managers' room for opportunistic accrual choices.

Earnings management

Earnings management refers to managerial actions that influence reported earnings through the selection of particular accounting methods to achieve certain reporting objectives (Nabilla, 2023). This study measures accrual-based earnings management using discretionary accruals (DA) estimated with the Modified Jones Model (Dechow et al., 1995), which focuses on identifying discretionary accruals as a proxy for opportunistic managerial behavior, without implying fraudulent reporting.

Sustainability report and earnings management

The sustainability report is a form of corporate transparency in reporting environmental, social, and governance performance. Through the disclosure of non-financial information, information asymmetry between managers and owners can be reduced, so that the opportunity for managers to engage in earnings management becomes smaller. Alodat et al. (2024) argue that the sustainability report acts as an ethical and moral monitoring mechanism that suppresses opportunistic managerial behavior, and this is supported by Roosyiidah et al. (2025) and Iqbal et al. (2023), who found a negative effect of sustainability reporting on earnings management. Based on this reasoning, the first hypothesis is proposed:

H_1: The Sustainability Report has a negative effect on Earnings Management.

Accounting conservatism and earnings management

Accounting conservatism is a principle of prudence in preparing financial statements, requiring firms not to overstate earnings and assets while recognizing losses and liabilities as early as possible

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(Watts, 2003). In an agency context, applying conservatism limits managerial discretion over the timing of revenue and expense recognition, so that the higher the level of conservatism applied, the smaller the opportunity for earnings management. Nurmaya et al. (2025), Hartam and Kresnawati (2022 found that accounting conservatism has a negative effect on earnings management. Based on this reasoning, the second hypothesis is proposed:

H_2: Accounting Conservatism has a negative effect on Earnings Management.

This study restricts the model to these two predictors of theoretical interest, sustainability report and accounting conservatism to isolate their direct association with earnings management with a parsimonious, internally consistent design; broader determinants such as firm size, leverage, profitability, and governance quality are acknowledged in the Discussion and Conclusion as plausible omitted factors and are proposed as directions for future research rather than as controls in the present model.

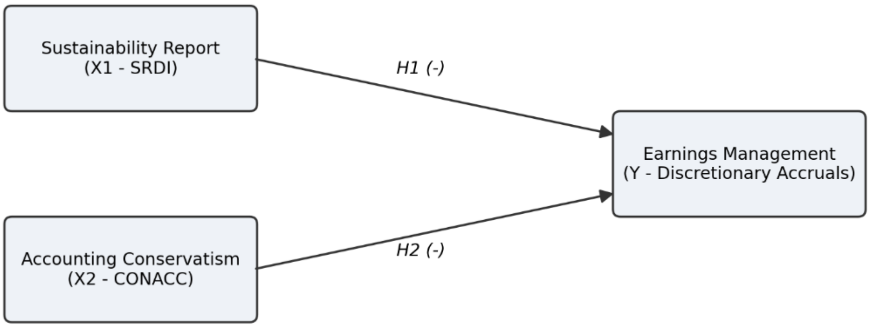

Figure 1. Conceptual framework

3. Research method

This study employs a quantitative approach to test predetermined hypotheses regarding the effect of the independent variables, sustainability report (X_1) and accounting conservatism (X_2) on the dependent variable, earnings management (Y). The population comprises all consumer non-cyclicals firms listed on the IDX during 2021–2024. The sample was selected using purposive sampling based on the criteria summarized in Table 1.

Table 1. Sample selection procedure

No	Criteria	Total
1	Consumer non-cyclicals firms listed on the IDX during 2021–2024.	132
2	Firms that conducted an IPO during 2021–2024.	(36)
3	Firms that did not publish audited financial statements consecutively during 2021–2024.	(11)
4	Firms that did not publish a publicly accessible sustainability report and/or annual report during 2021–2024.	(19)
5	Firms that incurred losses during 2021–2024.	(27)
	Firms meeting the criteria	**39**
	Total observations (39 firms × 4 years)	**156**

Source: www.idx.co.id (processed data, 2026)

Loss-making firms are excluded from the sample because the Modified Jones Model's estimation of non-discretionary accruals is known to perform poorly among loss firms, whose accrual behavior is driven more strongly by going-concern and impairment considerations than by revenue growth (Dechow et al., 1995); this exclusion is noted here as a scope limitation and is revisited in the Conclusion.

The study uses secondary data in the form of annual financial statements and sustainability reports obtained from the official IDX website (www.idx.co.id). The operationalization and measurement of each variable are summarized in Table 2.

Table 2. Variable operationalization and measurement

Variable	Proxy	Measurement
Earnings Management (Y)	Discretionary Accruals (DA) — Modified Jones Model (Dechow et al., 1995)	$DA = (TAC/A_{t-1}) - NDA$, where total accruals $TAC = NI - CFO$ and non-discretionary accruals (NDA) are estimated via OLS.
		Non-discretionary accruals: $NDA\_it = \beta_1(1/A\_i,t\text{-}1) + \beta_2[(\Delta REV\_it - \Delta REC\_it)/A\_i,t\text{-}1] + \beta_3(PPE\_it/A\_i,t\text{-}1)$, where β_1, β_2, β_3 are the coefficients from the first-stage OLS regression of total accruals: $TA\_it/A\_i,t\text{-}1 = \beta_1(1/A\_i,t\text{-}1) + \beta_2(\Delta REV\_it/A\_i,t\text{-}1) + \beta_3(PPE\_it/A\_i,t\text{-}1) + \varepsilon\_it$.
Sustainability Report (X_1)	Sustainability Reporting Disclosure Index (SRDI), GRI Standards	SRDI = n / k, where n = number of items disclosed and k = maximum score (89 GRI indicators).
Accounting Conservatism (X_2)	Conservatism Accruals (CONACC) — Griffin, P. A. (1977)	$CONACC = ((NI + DEP - CFO) / TA) \times (-1)$.

Source: Prior studies (processed, 2026)

Data were analyzed using descriptive statistics, classical assumption tests (normality via the one-sample Kolmogorov-Smirnov test, multicollinearity via tolerance and VIF, heteroscedasticity via the Glejser test, and autocorrelation via the Durbin-Watson statistic), and multiple linear regression, processed with SPSS version 30. The regression model is specified as:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + e$$

where Y = earnings management, X_1 = sustainability report (SRDI), X_2 = accounting conservatism (CONACC), α = constant, β_1 and β_2 = regression coefficients, and e = error term. Hypotheses were tested using the individual parameter significance test (t-test) at the 5% significance level, and the coefficient of determination (Adjusted R^2) was used to assess explanatory power.

4. Result and discussion

Descriptive statistics

Descriptive statistics for the three variables across 156 firm-year observations are presented in Table 3.

Table 3. Descriptive statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Sustainability Report (SRDI)	156	0.0674	0.9775	0.543863	0.2556934
Accounting Conservatism (CONACC)	156	-0.2043	0.0710	-0.045171	0.0503518
Earnings Management (DA)	156	-0.1320	0.11913	-0.001159	0.0542004

On average, the sustainability report disclosure index (SRDI) is 0.5439, indicating a moderately high level of disclosure, with considerable variation across firms (0.0674–0.9775). Accounting conservatism (CONACC) has a mean of -0.0452 with low variation, while earnings management (DA) has a mean close to zero (-0.0012), indicating both income-decreasing and income-increasing behavior across the sample.

Classical assumption tests

The results of the classical assumption tests are summarized in Table 4. The Kolmogorov-Smirnov test yields an Asymp. Sig. (2-tailed) of 0.073 (> 0.05), confirming that the residuals are normally distributed. Both independent variables have a tolerance of 0.996 (> 0.10) and a VIF of 1.004 (< 10), indicating no multicollinearity. The Glejser test produces significance values of 0.590 for the sustainability report and 0.542 for accounting conservatism (both > 0.05), indicating no heteroscedasticity. The Durbin-Watson statistic of 0.948 lies between -2 and +2, indicating no autocorrelation. All classical assumptions are therefore satisfied.

Table 4. Summary of classical assumption tests

Test	Statistic / Criterion	Result	Conclusion
Normality (Kolmogorov-Smirnov)	Asymp. Sig. > 0.05	0.073	Normal
Multicollinearity	Tolerance > 0.10; VIF < 10	0.996; 1.004	None
Heteroscedasticity (Glejser)	Sig. > 0.05	0.590; 0.542	None
Autocorrelation (Durbin-Watson)	Sig. (p) > 0.05	DW = 1.901; p = 0.548	None

Multiple linear regression and hypothesis testing

The results of the multiple linear regression and the individual parameter significance test (t-test) are presented in Table 5.

Table 5. Multiple linear regression and t-test results

Variable	Coefficient (B)	Std. Error	Beta	t	Sig.	Conclusion
(Constant)	-0.033	0.007	—	—	—	—
Sustainability Report (X_1)	-0.009	0.011	-0.041	-0.776	0.439	H_1 rejected
Accounting Conservatism (X_2)	-0.816	0.057	-0.758	-14.323	< 0.001	H_2 accepted

Dependent variable: Earnings Management (DA). t-table (df = 153) = 1.97559

Based on Table 5, the regression equation is $Y = -0.033 - 0.009X_1 - 0.816X_2 + e$. Although the sustainability report has a negative coefficient (-0.009), its t-value (-0.776) is smaller than the t-table value (1.97559) and its significance (0.439) exceeds 0.05; therefore H_1 is rejected—the sustainability report has no significant effect on earnings management. Accounting conservatism has a coefficient of -0.816 with a t-value of -14.323 (|t| > 1.97559) and significance < 0.001 (< 0.05); therefore, H_2 is accepted—accounting conservatism has a negative and significant effect on earnings management.

The coefficient of determination is presented in Table 6.

Table 6. Coefficient of determination

Model	R	R Square	Adjusted R Square	Durbin-Watson
1	0.757	0.573	0.567	0.948

The Adjusted R^2 of 0.567 indicates that the sustainability report and accounting conservatism jointly explain 56.7% of the variation in earnings management, while the remaining 43.3% is explained by other factors outside the model, such as firm size, profitability, leverage, corporate governance, audit quality, and ownership structure

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Discussion

The effect of the sustainability report on earnings management

The sustainability report has a negative but statistically insignificant effect on earnings management, so H_1 is rejected. This may occur because, for many firms, the sustainability report is still used mainly to fulfill regulatory requirements and to enhance corporate image, rather than reflecting genuine transparency in financial reporting. Investors tend to rely more on quantitative and directly measurable financial performance, so that non-financial sustainability disclosure has not yet become a strong indicator for constraining earnings management. From an agency-theory perspective, this indicates that sustainability disclosure alone is not yet sufficient to reduce information asymmetry and the conflict of interest between managers and shareholders. This result is consistent with Wibowo and Aryanindita (2025) and Renaldi and Hendriyeni (2023), who also found no effect of sustainability disclosure on earnings management.

The effect of accounting conservatism on earnings management

Accounting conservatism has a negative and significant effect on earnings management, so H_2 is accepted. The higher the level of conservatism applied, the smaller the opportunity for management to engage in earnings management. The prudence principle encourages firms to recognize revenue cautiously and to recognize potential expenses and losses earlier, so that reported earnings better reflect the firm's economic condition and the room for manipulation is reduced. Conservatism thus functions as a control mechanism that mitigates opportunistic managerial behavior and reduces information asymmetry between management and stakeholders. This finding is consistent with Nurmaya et al. (2025), Hartam and Kresnawati (2022), Ma'rifah and Suwarno (2025), and Maisaroh and Ariani (2024).

5. Conclusion

This study finds that the sustainability report has no significant effect on earnings management among consumer non-cyclicals firms listed on the IDX during 2021–2024, indicating that disclosure volume alone has not yet become an effective monitoring mechanism to constrain opportunistic managerial behavior, consistent with agency theory, as stakeholders and investors still rely more on financial indicators, and suggesting that stakeholder theory's constraining role for disclosure may depend on complementary governance mechanisms not captured by disclosure volume alone. In contrast, accounting conservatism has a negative and significant effect on earnings management, reinforcing agency theory's prediction that prudence-based accounting choices directly narrow managerial discretion over accrual timing. Practically, firms should not rely solely on sustainability reporting to enhance the credibility of their financial statements but should support it with sound corporate governance and transparent financial reporting; regulators such as OJK and professional bodies such as IAI may consider strengthening assurance requirements over sustainability disclosures, while auditors and analysts can treat consistent conservatism as a useful signal of lower accrual-based earnings management risk.

This study is limited to two independent variables and a single sector over four years, and the sample excludes loss-making firms (27 firm-years), which may introduce sample-selection effects since loss avoidance is itself a documented earnings-management incentive; the cross-sectional design also cannot rule out endogeneity or reverse causality between disclosure, conservatism, and earnings management. Future research is encouraged to add control variables such as corporate governance, leverage, profitability, and firm size; to extend the observation period; to examine other industry sectors; and to consider lagged or instrumental-variable designs, so that the results are more comprehensive, robust, and generalizable.

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