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DO THE MEDIA EXPOSURE, EARNINGS MANAGEMENT, GOVERNANCE, and OWNERSHIP STRUCTURE HAVE ANY IMPACT on ESG DISCLOSURE? Previous research has shown various results for the relationship between

good corporate governance (GCG), **and** company ownership **to corporate social responsibility** 6

(CSR) governance. These study conducts to answer the gap by explore real earnings management practice towards CSR governance. We use financial data and CSR governance from Bloomberg environmental, social and governance (ESG) database. Using 27 companies for the period 2012- 2016, the result suggest that GCG influence positively to ESG disclosure.

In addition, we find that real earnings management 42

(represent by Abnormal CFO and Abnormal Production) has a positive effect to ESG disclosure. We also demonstrate how the company ownership influences the disclosure. Keywords: real earnings management, ESG disclosure, Bloomberg, corporate governance. INTRODUCTION The world economy is getting more connected through trade and investment driven by growth secured by multinational companies in the

developed countries (Li and Gaur, 2014). Furthermore, globalisation's impact on corporate interests encourages a type of reporting that needs to be disclosed to both national and international stakeholders. For that reason, financial accounting cannot stay at merely responding to the needs of the stakeholders; as stakeholders now also require non-financial reports (Wulf et al., 2014). One of the tools that are widely used in non-financial reporting by companies is the Environmental, Social, and Governance (ESG). Environmental, Social, dan Governance (ESG) has grown to become a significant tool in business decision making, especially in the last few decades. The level of ESG disclosures can be linked to a company's level of transparency (Daub, 2007) and the quality and capability of its management in improving business profitably in the future (Eccles et al., 2011). To that end, businesses are now always striving to improve their business reporting practices as investors expect companies to disclose their environmental, social, dan governance (ESG) performance in ways that can be trusted and understood. United Nations Sustainable Stock Exchange stated that all companies registered in Stock Exchanges are expected to disclose the impacts of their environmental, social and governance (ESG) practices by year 2030 (Sustainable Stock Exchange, 2015). ESG information, in particular, is a non-finanncial disclosure that does not pursue a standardized format as in financial disclosure; therefore, ESG disclosures tend to vary (Elzahar et al., 2015). This non- financial aspect possesses a significant

impact on the **financial performance of** a **company,** 21

i.e. in terms of

access to capital; cost **and operational** efficiencies; **risk management; sales growth and market expansion; brand value and prestige** 21

(Hoang, 2018). According to PWC (2016), ESG is a series of corporate operating standards that are used by investors to filter their investment. ESG concept combines three main factors, which are environmental, social, dan governance, in evaluating the sustainability and ethical impacts of an investment in a company or business. Therefore, good corporate governance and financial reporting environment are stimulating the capital market performance to improve investor confidence (Mohammed, Ahmed, Ji, 2017). ESG concept allows the environmental factor explaining how the company runs its operations in the framework of natural environmental responsibility. The social factor reports on how a company manages its relations with the employees, suppliers, customers and the community. Meanwhile, the governance factor explains the leadership aspect in the company, executive remuneration, audit and internal control, and the shareholders' rights (PWC, 2016). Bajic and Yurtoglu (2018) confirmed that ESG measures can capture significant impacts of ESG on a company, which would drive the relationship between social aspects of ESG and the company's value. A systematic presentation of ESG information can be utilized by professional investors as an investing analysis tool. CFA Institute conducted a survey of investors in 2015 on ESG factors that are most utilized in making an investment decision. From 44,131 respondents, only 27% stated that they do not consider ESG factors in investing, while 73% respondents consider environmental, social, governance, even combination of these, factors, in investing. Out of 73% respondents who considered ESG factors, the majority of them considered governance as the main factor in making an investment, a total 64%. 50% respondents considered the environmental factor, and 49% considered social factor. (CFA Institute, 2015). For research purposes, Bloomberg online database is used in

this study to measure the level of social responsibility disclosure, 2

or mentioned as ESG disclosure, and will be divided according to three different categories, which are environmental, social, dan governance (ESG). In Bloomberg database every important data disclosure will be measured. The score of ESG disclosure explains the disclosure items on CSR in relation with the industry where the company becomes a part of. This study brings a unique contribution in the research of ESG disclosure. Bloomberg data is still tested to avoid any subjective limitations in the procedure of rating (Giannarakis, Konteos, Sariannidis, 2014). This study expects to find out the kind of impacts that Audit Committee Meeting, Independent Commissioner, Media Exposures, Real Earning Management, and Ownership make on ESG. The benefit from this study would be to provide information for companies on the importance of considering ESG factors if influenced by Audit Committee Meeting, Independent Commissioner, Media Exposures, Real Earning Management, and Ownership. For research purposes, major companies in Indonesia are taken as subjects of this study and expected to be able to develop further initiatives related to ESG disclosure. This study adopts the third party rating approach to calculate the extent of ESG disclosure. This study is also investigating the determining factor in an ESG disclosure and treating ESG disclosures separately (Giannarakis, Konteos, Sariannidis, 2014). The following are several studies previously conducted on real earnings management and ESG disclosure. Prior et al. (2008) used

a sample of 593 companies from 26 countries and showed positive 12

impacts of earnings management on ESG disclosure. Research conducted by Choi and Pae (2011), Kim et al. (2012) also discovered that ESG disclosure is also positively linked to the level of earnings management. However, Chih et al. (2008) discovered that the evidences are not consistent, in relation with earnings management conducted by the ESG companies. In addition to real earnings management, Ownership variable also influences ESG. According to Kim et al. (2018) companies with high foreign ownership score higher company value, higher ESG disclosure value, and higher level of asset growth. Other research found that

there is a positive impact between foreign ownership and 26

ESG (Guoyou, Saixing, Chiming, Haitao, & Hailiang, 2013; Oh, Chang, & Martynov, 2011). Khan et al. (2012) discover that there is

a positive association between public ownership and the level of ESG disclosure. 7

Research by

Kuo et al. (2012); Tagesson, Blank, Broberg, & Collin (2009) 13

state

that there is a positive impact between government ownership and ESG disclosure. 2

Several other research give varying

results, for example Suwaidan dkk. (2004), Mohd Ghazali (2007), dan Lim et al. (2008) 4

that discover a positive significant relation

between government ownership and ESG. Other researchers, Alotaibi dan Hussainey (2016) find a negative significant relation between government ownership and 4

ESG. On the other hand, several other researchers

find that there is a positive and insignificant relation between government ownership and ESG (Haji, 2013; Lu and Abeysekera, 2014; Naser et al., 2006; Khasharmeh and Suwaidan, 2010). 4

Another independent variable that influences ESG is independent commissioner. Independent commissioner does not only strive to implement

sustainable initiatives, but is also positively and significantly related to the level of voluntary disclosure 1

by the company, promoting a transparent reporting and disclosure system

(Ho & Wong, 2001; Barros et al. , 2013). 1

According to other researchers, Galbreath (2010), the independence of the board can help decision making, bring new insights, and perspectives related to environmental and social stakeholders. A few studies

(Jizi et al., 2014) state that independent 1

commissioner is very involved

in CSR reporting to promote the stakeholders' interests. 1

According to a research

by Rao and Tilt (2016b), majority of studies 1

have apparently confirmed that there is a positive relation between independent commissioner and ESG. According to Chang et al. (2012) and Johnson and Greening (1999), the level of external representation (independent commissioner) is positively related to ESG. However, according to

Frias-Aceituno et al. (2013), the research findings 1

cannot be concluded by merely looking at the type of existing relations between ESG disclosure and independent commissioner.

For example, Lim et al. (2007) and Prado-Lorenzo and Garcia-Sanchez (2010) 1

discover that there is a negative relation between commissioner independent and ESG, but other research finds a positive relation (Chen & Jaggi, 2000) or a insignificant relation between ESG disclosure and independent commissioner (Gallego-Álvarez

et al., 2011; Rao & Tilt, 2016a). Khan et al. 1

(2012), conducts an anlysis on

116 manufacturing companies listed on Dhaka Stock Exchange in Bangladesh from 2005 until 2009, and find a positive significant relation between 1

independent commissioner and ESG. Maistriau and Bonardi (2014) recognise that media coverage

has a positive effect on ESG 3

performance. Deegan (2000b) and Islam and Deegan (2010) consistently support the argument that the larger media exposure, the higher ESG disclosure will be. According to other researchers, the public's awareness and interests on

environmental and social issues and the **increased attention** by the **mass media have resulted in more social disclosures** by the companies **in the last two decades (Deegan and Gordon, 1996; Gray et al., 1995; Hooghiemstra, 2000; Kolk, 2003).** 2

Audit committee meeting, another independent variable, also influences ESG disclosure. Allegrini & Greco (2013) argue that through audit committee meeting members can explain their assessment on the company's accounting decisions in relation with the principle, disclosure and assumption. Giannarakis et al. (2014) argues that the number of board meetings does not become a substantial factor in describing the extent of ESG disclosure. According to European Multi- stakeholder Forum on CSR (2004) and Tencati et al (2004), audit commitees with a high frequency of meetings can better manage their business operations, because during meetings information on ESG disclosure is given a high attention, both by the internal and external stakeholders. Lipton and Lorsch (1992) also contend that the frequency of audit committee meetings can encourage companies to superiorly monitor company operations and motivate companies to increase transparency. From those research, it can be concluded that there are inconsistent results regarding the relations between independent and dependent variables. Thus, another study is going to conduct on those research.

For the purpose of this study, we will test the **companies** 39

listed on Stock Exchanges that also possess ESG scores. THEORETICAL BACKGROUND A. Legitimacy Theory Legitimacy theory explains that every organization has to ensure if it has operated

within the bounds and norms of their respective societies 34

(Deegan, 2000a). Based on this theory, it can be understood that companies will voluntarily report its whole activities if the management considers that specific activities are expected by the societies. Legitimacy theory focuses on the society's acceptance to ensure company's sustainability (Singh et al., 1986) and assumes that companies can only prosper if operating according to the society's expectations (Gray et al., 1996). Strategically, legitimacy theory explains from the perspective of a manager seeking "outward" for a support from the society (Suchman, 1995) that they try to offer symbolic corporate social, environmental and governance disclosures. This has caused accounting researchers to use legitimacy theory in explaining the motives behind voluntary social, environmental and governance disclosures (Chen dan Roberts, 2010). In particular, this disclosure practice has become a legitimacy tool used as a response against legitimacy threats, which can arise due to changes in the public values that are resulted from

changes in the **social awareness, pressures from** regulations **or** 10

institutions, media or interest groups, or

a company’s crisis (O'Donovan, 2002). For that reason, legitimacy theory states

that in order to respect their social contracts, organisations constantly strive to ensure that stakeholders have considered their activities as legitimate (Suchman, 1995). From this point of view, social, environmental and governance disclosures become a legitimacy management tool that 10

is used by companies to influence the perception of their stakeholders on social, environmental and governance impacts from

their activities (Cho, 2009; Gray et al., 1995). 10

B. Corporate Social Responsibility The increased practice in corporate social responsibility (CSR) in modern economy and in management literature has become one of the most striking global trends for the past 20 years. The public concerns on the aspects of environment, respecting the human rights, business ethics and other social issues have caused companies to multiply their efforts to manage community responsibilities (Misani, 2010). Experts have developed various theories and concepts for this matter on how companies handle social issues captured in their business operations (Mele ́, 2008). In the early study

on Corporate Social Responsibility (CSR), Carroll (1979) proposes a model to test CSR 14

investment by organisations that is based on the realms of economy, law and ethics (environmental issues under

economic and legal aspects). Ever since, expressions such as sustainability, corporate responsibility, corporate governance, socio-environmental governance, and environmental social and governance (ESG) have become synonymous 14

with CSR. Donaldson and Preston (1995) show that CSR brings value added for companies and CSR values can bring benefits for the stakeholders. Therefore, when stakeholders see that companies can respect their responsibilities, they will be happy to carry out transactions with the companies (Barnett, 2007). C.

Environmental, Social, and Governance ESG disclosure has a long 3

history in the CSR literatures. ESG disclosure refers to corporate reporting that focuses on organisational environmental, social and governance performances (Adams, Hill, & Roberts, 1998; Deegan, 2002; Gray, Kouhy, & Lavers, 1995) and is related to lower equity capital

expenditures. Companies that conduct significant ESG disclosure are capable to increase bigger capital compared to companies

that do not disclose ESG information (Dhaliwal, Li, Tsang, & Yang, 2011). The

3

studies

on the extent and quality of ESG

7

disclosure are mostly

based on ratings and review lists developed by individuals who manually collected data from annual reports or

7

companies' website

(Aerts, Cormier, & Magnan, 2008; Cho, Roberts, & Patten, 2010). Recently, ESG disclosure rating is also released by particular commercial information providers, such

7

as Bloomberg. Environmental performance in ESG disclosure

refers to the implementation of good environmental practices, such as implementing pollution control measures, making environmental investments, and organisation of environmental policies. Social performance refers to community investment, internal social policy, such as equal work opportunities, and other social aspects in relation with internal and external stakeholders. Governance performance refers to the implementation of good corporate governance practices, such as separation between the role of CEO and the chairman of board and diversity

5

amongst the members of the board, which ensure that a company has made decisions for the interests of its stakeholders. To enable easier

exposition, sustainability performance is referred to as ESG performance, which 5

consists of various results of

environmental, social and governance practices. ESG performance increases as one of the three dimensions improves, holding other things constant 5

(Giannarakis, Konteos, Sariannidis, 2014). D. Earnings Management Earnings management is categorized into accrual

earnings management and real earnings management, depending on whether earnings management 36

focuses on consequences of direct cash flow or not. Accrual earnings management is a manipulation of earnings management through estimation and method of accounting and

does not have any direct impact on the cash flow, while real earnings management 38

is manipulation of earnings through operational activities and directly impacting on the cash flow (Sun, Lan, & Liu, 2014).

Real earnings management can be defined as management actions that deviate from normal business practices 30

achieve earning targets. Real earnings management can be performed in three ways, as follows (Cohen and Zarowin, 2010; Roychowdhury, 2006). 1. Manipulation of Sales (Abnormal Cash Flow from Operation) Manipulation of sales can be done by temporarily increasing sales for

a certain period of time by offering excessive price discounts or 15

offering softer credit requirements.

This strategy can increase sales volume and earnings of the 15

current period, by assuming that earnings margin is still positive. 2. Excessive production (Abnormal Production) Managers can increase earnings by issuing a policy to increase the amount of production volume excessively. This is done in order for the company's production to reach a certain economies of scale as company's fixed costs are spread into larger amount of product units. As a result, cost of goods sold per unit becomes lower, allowing for report of higher earnings. 3. Lower Discretionary Expenditures (Abnormal Discretionary Expenditures) Companies can lower

discretionary expenditures, such as costs of research and development (R&D), advertisement, sales, and administration and 22

general, especially during the periods when costs do not directly impact revenues and earnings. This strategy can increase earnings and cash flow of the current period, yet with the risk of lowering cash flow of the next period.

According to Chih et al. (2008), principles of 16

ESG disclosures must provide

financial transparency and accountability to all levels of stakeholders, 16

so long as real earnings management is detected in the ESG practice.

This is consistent to the findings by Prior et al. (2008) where managers involved in earnings 16

manipulation can balance out by being involved in ESG activities, considering the asymmetric information between the internal (manager and director) and the external (shareholders and stakeholders) parties. According to Martínez- Ferrero, Banerjee, García-Sánchez (2016) there is a possibility that ESG is used as a strategy shield or entrenchment management to help reducing negative reactions / diverting the practice of

real earnings management. Real earnings management has been 23

proven to become an alternative to the accrual management (Cohen

et al., 2008; Zang, 2012). Prior et al. (2008) 45

use

a sample of 593 companies from 26 countries and show the positive 12

impact earnings management has on ESG disclosure. They

find a positive relation between earnings management and 12

ESG disclosure in regulated firms; however, the results are not significant statistically for unregulated firms. Findings from research conducted by Choi and Pae (2011), Kim et al. (2012) discover a positive relation between ESG and earnings management. Yet, Chih et al. (2008) discover that the evidences found are not consistent, in relation with

earnings management of ESG companies. Therefore, the hypothesis of this study is: 41

H1: Real earnings management has an impact on ESG disclosure. E. Ownership Many recent studies show that structure or type of ownership of a company has an impact on the company's governance mechanism (Sur et al., 2013) and its performance (Thomsen and Pedersen, 2000). Ownership is defined as possession over something and having a control over it. Ownership structure describes the composition of shares in a company. In addition, ownership structure also explains the commitment of the owners in managing and saving the company. Ownership is divided into 3, i.e. the government, public and foreign entity, whose numbers are taken from the annual reports of 27 companies. According to Kim et al. (2018), an increase in foreign ownership could drive managers to work actively in their company's ESG activities. This study result shows that companies with higher foreign ownerships have higher company value, higher ESG disclosures, and higher level of asset growths. Other studies discover that

there is a positive impact between foreign ownership and 26

CSR (Guoyou, Saixing, Chiming, Haitao, & Hailiang, 2013; Oh, Chang, & Martynov, 2011). Foreign companies tend to use their company websites to disseminate

their CSR information in order to reduce 47

conflicts between managers and the foreign owners, as well as providing an access to information for their foreign stakeholers (Firth et al., 2007; Wang et al., 2008). Therefore, the hypothesis of this study is: H2: Foreign Ownership has an impact on ESG disclosure When ownership diffusion widens, expectation and

demands from the shareholders will also become extensive (Keim, 1978). Companies that are publicly-listed can widen their ownership diffusion and the number of shareholders. For that reason, entities with public ownership face higher pressures that they are encouraged

to disclose additional information on their activities **due to visibility and accountability** 2

(Choi, 1999; Cormier dan Gordon, 2001). Khan et al. (2012) discover that there is

a positive association between public **ownership and the level of** ESG **disclosure.** 7

In addition, companies that are listed in the stock market tend to comply with the requirements specified by the authorities (Monteiro and Aibar-Guzmán, 2010). For that reason, companies that are listed in the stock market and establish ownership diffusion are considered significant determiner in voluntary ESG disclosures. Therefore, the hypothesis of this study is: H3: Public Ownership has an impact on ESG disclosure Studies by

Kuo et al. (2012), **Tagesson, Blank, Broberg, & Collin (2009)** 13

state

that there is a **positive** impact **between** government **ownership and** ESG **disclosure.** 2

According to those studies, companies that are operated by the government have more commitment in disclosing their environmental information compared to other companies. According to Said et al. (2009), a government mandate can cause companies to reveal their CSR information as the government is a publicly-trusted body. There are a few other studies that offer varying

results, for example Suwaidan dkk. **(2004), Mohd Ghazali (2007),** and **Lim et al. (2008)** 4

that discover positive significant relations

between government ownership and ESG. Other researchers, **Alotaibi** dan **Hussainey (2016) find a** negative **significant** relation **between government ownership and** 4

ESG. On the other side, few other researchers

find that there are positive and insignificant relation between government ownership and ESG (Haji, 2013, Lu and Abeysekera, 2014, Naser et al., 2006, Khasharmeh and Suwaidan, 2010). 4

Therefore, the hypothesis of this study is: H4: Government Ownership has an impmact on ESG disclosure F. Independent Commissioners Independent commisioners are members of the board of commissioners that do not have any relation with the management, other members of the

board of commissioners and the controlling shareholders, and free from business 17

relations as well as other affiliations that can influence

their ability to act independently or act solely for the company's interest. 17

According to other researchers, Galbreath (2010), the independence of the board can help decision making, bring new insights, and perspectives related to environmental and social stakeholders. Independent commissioners do not only strive to implement

sustainable initiatives but also positively and significantly in relation with the extent of voluntary corporate disclosure, encouraging reporting system and transparent disclosure (Ho & Wong, 2001; Barros et al. , 2013). 1

According to Chang et al. (2012) and Johnson and Greening (1999), the level of external representation (independent commissioner) is positively related to ESG. According to a study

by Rao and Tilt (2016b), majority of the studies 1

seem to confirm a positive relation between commissioner's independence and ESG. However, according to

Frias-Aceituno et al. (2013), study findings 1

cannot be concluded only by looking at the type of relations exist between ESG disclosure and independent commissioners.

For example, Lim et al. (2007) and Prado-Lorenzo and Garcia-Sanchez (2010) discover a negative | 1

relation between commissioner's independence and ESG, however; other studies find a positive relation (Chen & Jaggi, 2000) or insignificant between ESG disclosure and independent commissioner (Gallego-Álvarez

et al., 2011; Rao & Tilt, 2016a). Khan et al. | 1

(2012), conduct an analysis on

116 manufacturing companies listed on the Dhaka Stock Exchange in Bangladesh from 2005 up to 2009, | 3

and discover

that there is a positive significant relation between commissioner's independence and ESG disclosure. | 13

This result shows that the higher commissioner's independence, the most probable a company will emphasize on aspects of social interest and organisation's legitimacy and disclose more ESG activities. Therefore, the hypothesis of this study is: H5: Independent Commissioner has an impact on ESG. G. Media Exposures Media forms public opinions on events that are not directly experienced by the people. The way media describes a company can affect the extent of company's acceptance in the society

(Brown and Deegan, 1998; Aerts and Cormier, 2009; Dickson and Eckman, 2008). | 19

To that end, it can be determined in what ways and how the company is using ESG communication to create a legitimacy of itself, based on the

changes in its organisation's image portrayed by the media: Deegan (2000b) and Islam and Deegan | 19

(2010). According to results of those studies, overall, the previous studies consistently support the argument that the larger the media exposure, the higher the level of ESG disclosure. In addition, by establishing a relation between media activitiess and corporate ESG disclosure efforts, this study also sees that impacts

from media coverages are important. Maistriau and Bonardi (2014) recognize that media coverage has a positive impact on ESG performance. They study British companies and discover that negative news coverage would encourage managers to make additional investments on ESG. Public's awareness and interests on

environmental and social issues and the **increased attention in** the **mass media have resulted in more social disclosures** by companies **in the last two decades (Deegan and Gordon, 1996; Gray et al., 1995; Hooghiemstra, 2000; Kolk, 2003).** 2

However, renowned controlled media

have been dominated by and for the **elites,** where most **of their** ESG **activities** conducted **are** quite **positive (Zhang and Swanson 2006; Deephouse and Suchman 2008; Lyon and Montgomery** 2013). **For this reason,** 9

disclosures that are conducted excessively on ESG activities often fall under suspicion that they are used to serve the companies' own interests, attracting attention from critical stakeholders, and operating

the risk of ''self promoter paradox" (Lyon and Maxwell, 2011). 9

In order for ESG communication to succeed, there needs to be a support from the public. Therefore, the hypothesis of this study is: H6: Media Exposure has an impact on ESG disclosure. H. Audit Committee Meeting An article from FCGI (2002) states that Audit Committee usually must conduct meetings three to four times a year in order to be able to perform their duties and responsibility on financial reporting system. According to the Decision of the Chairman of BAPEPAM No. Kep- 29/PM/2004, Audit Committee must hold meetings at least the same as the minimum required meetings of the Board of Commissioners that have been specified in the company's Article of Association. Treadway Commission (1987) in Sori, et al., (2007) state that Audit Commmittee should at least meet four times a year. Allegrini & Greco (2013) argue that through audit committee meeting members can present their evaluation on the company's accounting decisions in relation with their principles, disclosures and assumptions. Moreover, through regular meetings, members of Audit Committee can receive information and acknowledgement on accounting and audit issues that are relevant (Allegrini & Greco, 2013). For this reason, a more proactive Audit Committee, one that meets often during the year, can offer its members bigger opportunities to discuss and evaluate issues that present at the moment in relation with the company's financial reporting practice (Li et al., 2012). Giannarakis et al. (2014) argue that the number of board meetings is not a substantial factor in explaining the level of ESG disclosure, as the board of directors is only responsible for the ESG policies and not the implementation of ESG. According to the European Multistakeholder Forum on ESG (2004) and Tencati et al (2004), the audit committee with a high frequency of meetings can better run its business operations, as during meetings ESG disclosure information is usually given a lot of attention, either by the internal or

external stakeholders. Lipton and Lorsch (1992) contend that the frequency of audit committee meetings can encourage companies to superiorly monitor company operations and motivate companies to increase transparency. Therefore, the hypothesis of this study is: H7:

Audit committee meeting **has an impact on** 15

ESG disclosure. RESEARCH METHODOLOGY This

study is conducted **to** test **the** impacts **of independent** variables, including **audit** 15

committee meeting, audit commissioner, media exposures, real earning management, and ownership (consisting of government, public and foreign ownership) on the dependent variables, i.e. ESG (Environmental, Social and Governance). Therefore, this study uses an analysis model below : Image 1 Conceptual Framework A. Sample and Data The

type of data used in this study **is** quantitative **data.** The details of **data** 2

and sources of data used, including : total assets, cash flow operation, sales, inventory, cost of good sold,

advertising expense, research and development expense, selling, general & administrative expense, 33

ESG score, financial leverage, audit committee meeting, media exposures, independent commissioner, and ownership are retrieved from financial reports of

companies listed in the Indonesia Stock Exchange 6

(ISX) through

Indonesia Stock Exchange' s website **(www.idx.co.id) and** 6

from Bloomberg. This study uses documentary method in collecting data of corporate financial reports starting from 2012 until 2016. Analysis unit in this study is on the company level. This study employs multiple linear regression. Data testing is required to ensure that the available data can be used to test formulated model in order to conduct proposed hypothesis test. Data in this study will be analysed by using Gretl and SPSS softwares. The population used in this research is

companies listed in the Indonesia Stock Exchange (ISX) starting from 6

2012 until 2016. In the beginning population consists of 80 companies; however, only 27 passed the criteria of five year observation period, i.e. from 2012-2016. Sampling technique

used in this study is purposive judgement sampling: 6

Tabel 1. Research Sample Sample Criteria Total Total

companies listed in the Indonesia Stock Exchange from 6

2012-2016 Total companies with ESG score Total companies with incomplete ESG report Total companies included in research sample Total year of observation Total observation data 582 Companies 80 Companies (53) Companies 27 Companies 5 Years 135 data B. Equations Following the conceptual framework, the writer formulates a model that will be tested by using multiple linear regression. The analysis model is stated in the mathematical formula as follow: Equation 1. Mathematical Model ESG discl = α + β1 ACM + β2IC + β3ME + β4PO + β5GO + β6FO + β7ACF + β8ADE + β9AP + ε C. Definition of Variables Table 2. Definition of Variables Variable Definition ESG Disclosure Real Earning Management Referring

to corporate reporting that focus on environmental, social and organisational governance 3

performances Earnings manipulation in Roychowdhury model Ownership Company’s ownership from 2012-2016 Independent Commissioner Total independent commissioner against the total members of board of commissioner Audit Committee Meeting Frequency of audit committee meeting Media Exposures Dummy Variable D. Earnings Management In calculating earnings management, this research uses Roychowdhury formula. Roychowdhury (2006) discovers evidences that companies use several

real earnings management methods to fulfill certain financial reporting standards to avoid reporting 32

on yearly loss. Evidences show that managers offer price discounts to increase sales temporarily, reduce discretionary expenses to increase reported margins, and allow excessive production volume

to reduce the cost of goods sold. In the 25

study by Graham et al. (2005), providing evidences of managers preferring

real earnings management activities compared to accrual-based earnings management. 23

Formulas used to calculate

real earnings management are as follows. a. Abnormal cash flow from operations 37

CFOit / Assetsi,t-1 = a1t (1 / Assetsi,t-1 + a2t (Salesi,t / Assetsi,t-1) + a3t (∆Salesi,t / Assetsi,t-1) 11

+ Ɛi,t Notes : CFOi,t Assetsi

,t-1 Salesi,t ∆Salesi,t 28

=

Cash flow from company operations in year t = Total company's asset in year t-1 31

= Company's

sales in year t = Change in company's sales in year t 24

b. Abnormal production Prodit / Assetsi,t-1 = b1t (1/ Assetsi,t-1) + b2t (Salesi,t / Assetsi,t-1) + b3t (∆Salesi,t / Assetsi,t-1) + b4t (∆Salesi,t-1 / Assetsi,t-1) + Ɛit Notes : Prodit = Total HPP and change in company's inventory in year

t Assetsi,t-1 Salesi,t ∆Salesi ,t ∆Salesi,t-1 11

= Total company's asset in year t-1 = Company's

sales in year t = Change in company's sales in year t 24

= Change in company's sales in year t-1 c. Abnormal discretionary expenses

Discexpit / Assetsi,t-1 = cit (1 / Assetsi,t-1) + c2t (Salesi,t-1 / Assetsi,t-1) 11

+ Ɛit Notes : Discexpit = Total advertisement cost,

R&D cost and sales, general and administrative (SG&A) 22

cost Assetsi,t-1 = Total company's asset in

year t-1 Salesi ,t-1 = Company's sales in year t 28

RESULTS OF STUDY AND ANALYSIS A. Descriptive Statistics Table 3. Research's Variable

Descriptive Statistics Variable Min Max Mean S.D. ESG Disclosure 46

Audit Committee Meeting Media Exposures Independent Commissioner Government Ownership Public Ownership Foreign Ownership Abnormal Operating Cash Flow Abnormal Production Abn Discretionary Expenses 6.612 54.13 24.21 0.00 36.00 7.348 0.00 1.0 0.7407 0.00 6.0 2.356 0.00 0.7 0.1336 0.00 0.8212 0.3721 0.00 0.340 0.01155 -0.3907 0.2548 2.327e-017 -0.5431 0.7982 1.220e-017 -0.4702 0.5295 6.909e-017 13.53 6.712 0.4399 1.011 0.2531 0.1477 0.05919 0.1109 0.2177 0.1493 Source: Gretl Output From the table above, the main dependent variable, i.e. ESG Disclosure, possesses an average value of research sample companies of 24.21 with the standard of deviation of 13.53. The highest ESG Disclosure value is 54.13 (54.1321983337402) recorded by SMCB in 2014. Meanwhile, the lowest ESG Disclosure value is 6.612 (6.61159992218018) recorded by BMTR in 2015. For the independent variable of audit committee meeting, average value of research sample

companies is 7. 348 with the standard of deviation of 6.712. The 25

highest audit committee meeting score is 36.00 recorded by SMGR in 2012. Meanwhile, the lowest audit committee meeting score is 0 recorded by 2 companies for the period of 2012 - 2016 (TBIG, GGRM). For the independent variable of media exposures. Average value of research sample companies is 0.7407 with the standard of deviation of 0.4399. The highest media exposures score is 1 recorded by 20 companies through the period of 2012 - 2016. Meanwhile, the lowest media exposures score is 0. For the independent variable of independent commissioner. The average score of research sample companies is 2.356 with the standard of deviation of 1.011. The highest independent commissioner score is 6 recorded by LPKR in 2013 and 2014. Meanwhile, the lowest independent commissioner score is 0 recorded by 3 companies in 2012, 2013, 2015 and 2016. For the independent variable of Ownership (Government ownership). The average score of research sample companies is 0.1336 with the standard of deviation of 0.2531. The highest government ownership score is 0.7 recorded by JSMR in 2014. Meanwhile, the lowest government ownership score is 0.00 recorded by 21 companies in 2012-2016. For the independent variable of Ownership (public ownership). The average score of research sample companies is 0.3721 with the

standard of deviation of 0.1477. The highest ownership public score is 0.8212 recorded by LPKR in 2012 dan 2013. Meanwhile, the lowest ownership public score is 0 recorded by TBIG in 2014-2016. For the independent variable of Ownership (foreign ownership). The average score of research sample companies is 0.01155 with the standard of deviation of 0.05919. The highest foreign ownership score is 0.340 recorded by KLBF in 2012. Meanwhile, the lowest foreign ownership score is 0 recorded by 26 companies in 2012-2016. For the independent variable of abnormal operating cash flow from operation. The average score of research sample companies is 2.327e-017 with the standard of deviation of 0.1109. The highest abnormal operating cash flow score is 0.2548 recorded by UNVR in 2013. Meanwhile, the lowest abnormal operating cash flow score is -0.3907 recorded by HEXA in 2012. For the independent variable of abnormal production. The average score of research sample companies is 1.220e-017 with the standard of deviation of 0.2177. The highest abnormal production score is 0.7982 recorded by HEXA in 2012. Meanwhile, the lowest abnormal production score is -0.5431 recorded by UNVR in 2015. For the independent variable of abnormal discretional expense. The average score of research sample companies is 6.909e-017 with the standard of deviation of 0.1493. The highest abnormal discretion expense score is 0.5295 recorded by UNVR in 2012. Meanwhile, the lowest abnormal discretion expense score is -0.4702 recorded by AKRA in 2012. B. Hypothesis Testing This research data is panel data. Steps in conducting panel data testing are as follows. 1. Chow Test Image 2. Results of Chow Test

Joint significance of differing group means: F(26, 99) = 1, 53607 with p-value 0, 0685075 (A low p-value counts against the null hypothesis that the pooled OLS model is adequate, in favor of the fixed effects alternative.) 8

Chow Test reveals that this research model is pooled model. For that reason, we conduct collinearity and heteroskedasticity tests. 2. Collinearity Test Image 3. Results of Collinearity Test

Variance Inflation Factors Minimum possible value = 1.0 Values > 10.0 may indicate a collinearity problem 8

AuditCommitteeMeeting MediaExposures IndependentCommissioner GovernmentOwnership PublicOwnership ForeignOwnership AbnCFO AbnProd AbnDiscExp 2,276 1,469 1,516 1,656 1,370 1,416 2,848 3,169 2,223

VIF(j) = 1/(1 - R(j)^2), where R(j) is the multiple correlation coefficient between variable j and the other independent variables Collinearity 18

test reveals that the model does not have collinearity. 2. Heteroskedasticity Test Image 4. White's Test OLS, using 135 observations

Dependent variable: uhat^2 Omitted due to exact collinearity: X2_X7 X3_X7 X7_ X9 X7_ 27

X10

Test statistic: TR^2 = 79,998981, **with p-value = P(Chi-square(** 48) > 79,998981) = **0,** 002556 White's **test** 8

show that the model contains heteroskedasticity. Therefore, we conduct heteroskedasticity-corrected so that the model can be used to test the hypothesis. 4. Heteroskedasticity-Corrected Test Image 4. Result from Heteroskedasticity-Corrected Test Model 3:

Heteroskedasticity-corrected, using 135 **observations Dependent variable:** ESGDISCLOSURE **coefficient std. error t-ratio p-value ------------ -- const** 20

15,9262 2,72549 5,843 4,17e-08 *** AuditCommitteeMe~ 0,450680 0,133168 3,384 0,0010 *** MediaExposures 3,16589 1,57606 2,009 0,0467 ** IndependentCommi~ 2,59046 0,709075 3,653 0,0004 *** GovernmentOwners~ 30,1019 2,75608 10,92 6,57e-020 *** PublicOwnership ForeignOwnership AbnCFO AbnProd AbnDiscExp −21,1404 5,81382 −3,636 0,0004 *** 34,5518 19,8931 19,0438 3,51187 7,89008 6,56247 4,07762 6,40582 4,379 2,49e-05 *** 3,031 0,0030 *** 4,670 7,64e-06 *** 0,5482 0,5845

Statistics based on the weighted data: Sum squared resid 20

400,0504 R-squared 0,789441 F(9, 125) 52,07308 Log-likelihood −264,8830 Schwarz criterion 578,8188 S

.E. of regression Adjusted R-squared P-value(F) Akaike criterion Hannan-Quinn 29

1,788967 0,774281 4,28e-38 549,7660 561,5723 After running heteroskedasticity-corrected test, the model can be used to test the hypothesis. From Figure 4, the p-value of the F test is 4.28e-38 <5%, which means that the model is feasible to use to test the hypothesis. R-squared shows a value of 0.789441 which means that the independent variables are able to explain the dependent variables by 78%. 5. Hypothesis Test Table 4. Hypothesis Test

Coefficient Std. Error p-value Sig **Const 15,** 9262 **2,** 40

72549 4,17e-08 *** H1 AbnCFO 19,8931 6,56247 0,0030 *** H1 AbnProd 19,0438 4,07762 7,64e-06 *** H1 AbnDiscExp 3,51187 6,40582 0,5845 H2 34,5518 7,89008 2,49e-05 *** H3 −21,1404 5,81382 0,0004 *** H4 30,1019 2,75608 6,57e-020 *** H5 2,59046 0,709075 0,0004 *** H6 3,16589 1,57606 0,0467 ** H7 0,450680 0,133168 0,0010 *** Source : Gretl Note. *, **, *** significant

at 10, 5, and 1 percent levels, respectively Real earnings management 35

can be done in 3 ways, which are

abnormal operating cash flow, abnormal discretion expense, and abnormal production. From the 43

result of regression test conducted, it can be concluded that abnormal production and abnormal operationg cash flow from operation have an impact on ESG disclosure, yet abnormal discretionary expenses does not. Therefore, H1 cannot be accepted. There is an indication that management does earnings manipulation in AbnCFO and AbnProd by increasing sales temporarily during a period of time by offering price discount excessively or by providing soft credit requirement, making the policy to manufacture products in a large quantity. Supported by the studies by

Prior et al. (2008), Choi and Pae (2011), 12

Kim et al. (2012) with result that there is a positive impact made by earnings management on ESG disclosure, this means that the more often managers manipulate earnings they will divert the stakeholders' attention all the more through ESG disclosure. Ownership shows a significant relationship to ESG. In this study, ownership itself is divided into 3, namely foreign ownership, public ownership, and government ownership. These three parts are retrieved from companies' annual reports from 2012-2016. Foreign ownership

has a positive effect on ESG disclosure, 3

so H2 is accepted. Results of the study indicate that companies with high foreign ownership have high ESG disclosure scores. This is supported by research by Kim et al. (2018) which state that increased in foreign ownership can encourage managers to work actively in the company's ESG activities. This is because foreign companies, especially in Europe and America are more familiar with the concepts of ESG practice and disclosure. Therefore, foreign shareholders will put more pressure on the management in disclosing ESG. Public

ownership has a negative effect on ESG disclosure, so that 6

H3 can be accepted. The result is not supported by previous studies such as Khan et al. (2012) who discover that there is

a positive association between public ownership and the level of ESG 7

disclosure.

This can happen because of the assumption that the public is an investor who wants to invest in the company, but

does not pay attention to the level of ESG disclosure 17

at the company. They will be more concerned with stock price movements due to the lack of public awareness of ESG. Therefore, if the management finds that public ownership to be lower, then it must be able to increase the company's ESG disclosure. Government ownership shows a positive influence on ESG disclosure, so H4 is accepted. This supports the studies by

Kuo et al. (2012), Tagesson, Blank, Broberg, & Collin (2009) 13

which state

that there is a positive influence between government ownership and ESG disclosure. 2

Based on these studies, it is discovered that government-controlled

companies are more committed to disclosing environmental information than other companies. 44

This is because

government ownership has a positive effect on ESG disclosure. Therefore, the 6

management is advised to increase the proportion of government share ownership because government ownership can improve the quality and quantity of disclosures. Independent Commissioner shows a positive impact on ESG disclosure, so that H5 can be accepted. This means supporting the studies by Jizi et al. (2014), Rao and Tilt (2016b), Chen & Jaggi (2000), Khan et al. (2012), Chang et al. (2012) and Johnson and Greening (1999). Independent commissioners are very involved in ESG reporting to promote the interests of stakeholders. Because independent commissioners have an impact on ESG scoring by Bloomberg, independent commissioners are expected to remain involved in ESG reporting so that they can continue to promote the interests of stakeholders. Media exposure shows

a positive impact on ESG disclosure, therefore H6 **is** acceptable. **This** 3

is consistent with the studies by Deegan (2000b), Islam and Deegan (2010), Maistriau and Bonardi (2014),

Zhang and Swanson (2006), Deephouse and Suchman (2008), Lyon and Montgomery (2013). **This** 9

means that the greater the media exposure, the higher the extent of ESG disclosure. This is triggered by the public's awareness and interest on environmental and social issues. Because media exposures have an effect on ESG scoring by Bloomberg, the management is advised to keep regularly uploading company activities on the website so that stakeholders and the public have positive information and image of the company. Audit committee meeting shows

a positive impact on ESG disclosure, so H7 **is** acceptable. **This** 3

is consistent with Tencati et al (2004) and Lipton and Lorsch (1992). Audit committees that have high frequency of meetings can better manage their business operations, because in meetings usually ESG disclosure information is given a lot of attention, both by internal stakeholders (internal meetings of the Board of Commissioners, Joint Meetings of Directors and Commissioners, internal audit meetings with audit committee) and external (audit committee meeting with external auditors). Tencati et al. (2004) reveals that because audit committee meetings are impacting ESG scoring by Bloomberg, the audit committee is advised to routinely conduct audit committee meetings so that disclosure of ESG information can still be given attention. CONCLUSION Corporate social responsibility activities are increasingly given a lot of attention from the investors, customers, employees and governments throughout the world (Kabir dan Thai, 2017). For that reason, many companies have shown higher interests in reporting their social responsibilities and initiating ESG activities (Setiawan, 2016). ESG performances are considered well conducted if done by the company with the purpose to fulfill the stakeholders' interests. Benefit gained by the company that implements ESG is that the company becomes more competitive in the market. ESG becomes a strategy for a company and can function as an effective communication tool between the company and its stakeholders. It is because not all field activities conducted by a company can be know by the stakeholders. ESG disclosure consists of sustainability performances and represents information that communicates whether the company has worked towards achieving sustainability targets (Bradford, Earp, and Williams, 2017). From the Bloomberg's ESG performance scores, a company can evaluate its own corporate practices in the aspects of environmental, social and corporate governances by using publicly-available data, annual reports and sustainability reports, direct communications, pers releases, third-party studies, and news (Tamimi dan Sebastianelli, 2017). Result from this study reveals that real earnings management, ownership, commissioner independent, media exposures, audit committee meeting have impacts on ESG disclosure, using Bloomberg's ESG disclosure database. Further, this study also supports the legitimacy theory as good ESG disclosures can improve company's image, that earnings management practice conducted by the company is ignored by the stakeholders (Martínez-Ferrero, Banerjee, García- Sánchez, 2016). The limitation on this research is that it is done on 27

companies listed in **the Indonesia Stock Exchange** (IDX). Data used **in** 6

this study is taken from Bloomberg and financial reports and annual reports shared in the official website of the Indonesia Stock Exchange.