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What drives Indonesian companies to engage in ESG: The non-financial corporate context

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Abstract

Purpose: This study aims to determine how managerial myopia and financial distress affect ESG performance through earnings management.

Methodology/approach: The PLS-SEM approach was used to examine secondary data in this quantitative investigation. This study uses data from non-financial companies listed on the IDX from 2013-2022.

Results/findings: This study discovered that financial distress improves the company's ESG performance as seen through earnings management, but this effect is insignificant. Meanwhile, managerial myopia has a negative and insufficient effect on ESG performance as seen through earnings management. Separate research revealed that managerial myopia and financial distress had a detrimental impact but not significant on ESG performance.

Conclusion: Companies facing financial distress tend to reduce ESG involvement, while myopic managers prioritize short-term outcomes over sustainability practices. Earnings management weakens ESG performance, and both financial distress and managerial myopia fail to significantly drive ESG engagement in Indonesian firms.

Limitations: Due to the limitations of research data, especially data on research and development (R&D), this study cannot compare ROA, marketing, and R&D performance to measure managerial myopia. This study does not further investigate whether the low motivation of companies towards ESG caused by financial distress and managerial myopia affects the company's financial performance.

Contribution: This research contributes to deepening understanding of the negative impacts of financial distresses and managerial myopia as well as the effects of earnings management on corporate sustainability.

Keywords: *Earnings Management, ESG Performance, Financial Distress, Managerial Myopia*

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1. Introduction

ESG began in the 1950s with the emergence of the term "Social Responsibility" or CSR in 1953. However, there are differences between the two; CSR focuses on social and sometimes environmental aspects, while ESG covers broader issues by incorporating corporate governance criteria (Gillan, Koch, & Starks, 2021). Numerous studies have been conducted to examine how ESG ideals affect businesses. Specifically, how it affects the financial performance of a business. In addition to raising corporate understanding of how business activities affect the environment and society, financial gains are one of the reasons organizations adopt ESG (Amel-Zadeh & Serafeim, 2018). Numerous studies have shown that implementing ESG improves business success (Ademi & Klungseth, 2022; Dkhili, 2024; Pinheiro, Panza, Berhorst, Toaldo, & Segatto, 2024), while others have found the opposite results (Atan, Alam, Said, & Zamri, 2018; Cohen, 2023; Kanoujiya, Singh, & Rastogi, 2023).

Different perspectives can explain these different results. The shareholder adecost view states that corporate engagement in CSR is a deviation from the goal of maximizing owner profits; thus, CSR engagement is a waste of corporate financial resources and can cause companies to experience financial distress (Farooq & Noor, 2021). However Witold, Tim, and Robin (2019), ESG can increase corporate value, there are five ways for ESG to create positive value for companies, through ESG companies can increase their revenues, reduce costs, reduce interference from laws and regulations, increase employee productivity and optimize investment and capital expenditure. In addition, companies involved in ESG will be able to streamline high material costs, thereby increasing returns and product competitiveness by forming environmentally friendly products (Zhang, Li, Xu, & Ding, 2023). This will benefit companies, especially by easing financing and avoiding financial constraints.

The benefits offered by ESG can encourage companies to be involved and active in ESG, especially those that want to improve their financial performance, such as companies experiencing financial distress. However, implementing ESG incurs large costs and is a long-term process. To reap the benefits of ESG, companies must be consistent and maintain their performance. Can companies experiencing financial distress provide their limited resources to implement ESG?

Businesses in financial distress lack the resources to support ESG initiatives (Harymawan et al., 2021), lack the necessary funds and auxiliary knowledge, and their access to strategies is restricted, which forces them to adopt low-cost tactics. They will try harder to restore their condition by investing in value-added activities rather than investing in ESG, whose benefits are abstract. In addition, it is difficult to implement ESG comprehensively in companies experiencing financial problems. ESG requires large investments, such as replacing machines with environmentally friendly machines, creating new waste processing that does not damage the environment, and implementing ISO 14001, which incurs high costs. The sacrifice of costs incurred for ESG will cause companies to lose other projects because they focus more on company resources on environmental performance, resulting in a declining financial performance (Nareswari, Tarczyńska-Łuniewska, & Al Hashfi, 2023).

In addition to financial distress, the manager's time horizon also affects ESG implementation. Managers, as decision-making pillars in a company, certainly affect the company’s ESG practices. Managerial myopia describes deviant managerial behavior. Various forms of management conduct that prioritize short-term outcomes over the long-term health of the organization are referred to as managerial myopia (Lu, Liang, Hu, & Liu, 2024).Because they are worried about immediate financial gains, managers with managerial myopia may prioritize market pricing over ESG involvement (H. Liu & Zhang, 2023). In their research, H. Liu and Zhang (2023) consider that the existence of myopic managers will jeopardize the integrity and honesty of ESG disclosure, transforming it into a self-serving and covert tool in which management conceals undesirable aspects of the business and uses it for personal benefit. Managerial myopia results from managers’selfish actions that are contrary to the needs of stakeholders by increasing accounting profits, thereby reducing long-term performance; they tend to manipulate financial reporting to change the numbers (Salehi et al., 2024).

In addition, companies in financially distressed conditions may use earnings management to cover up their difficult financial conditions and replace them with a good financial picture of the company. This behavior is used to avoid market sanctions, salary reductions, and even the risk of dismissal (Viana Jr, Lourenço, & Black, 2022). There may be more incentives for businesses in financial trouble to manipulate reported results in any manner they can since they may not be able to match benchmark metrics for bondholders or financial analysts' expectations (Chang, Liu, & Forgione, 2022). The correlation between financial distress and earnings management will increase, particularly in emerging markets. This is due to the fact that institutional elements, including as inadequate governance systems, weak internal controls, and agency conflicts between majority (controlling) and minority shareholders, foster an atmosphere that is favorable for businesses to manipulate earnings (Viana Jr et al., 2022).

The association between ESG and earnings manipulation is positive, and managers who participate in CSR and ESG initiatives do so for their personal advantage (Almubarak, Chebbi, and Ammer (2023).

Managers who manipulate profitability risk stakeholder action and vigilance through the use of corporate social responsibility (CSR) practices, which harm stakeholders' collective interests. This combination of earnings management and CSR hurts the financial performance of an organization (Prior, Surroca, & Tribó, 2008). However, research on the connection between CSR or ESG and profitability management also reveals unfavorable outcomes. Managers of socially conscious organizations exhibit more ethical behavior, which impacts the quality of the company's financial reporting, according to the negative correlation between earnings management and social responsibility (Gaio, Gonçalves, & Sousa, 2022; Gonçalves, Gaio, & Ferro, 2021).

This study investigates the impact of myopia and financial hardship on Indonesia's adoption of ESG. It examines how financial distress and myopia relate to the implementation of ESG in Indonesian enterprises and how earnings management mediates this link. Previous studies have focused on financial distress ESG practices and how earnings management affects ESG. In this study, the researcher added a myopia variable to explain the relationship between managers' time horizons and ESG implementation in Indonesian companies.

2. Literature review

2.1 Financial distress on the ESG performance of the company

Companies experiencing financial distress will try to manage the available funding sources to invest in projects that have a short cycle and low risk to avoid losses due to risky investment decisions. This is described by the Conservation of Resources (COR) Theory, which holds that people are driven to acquire, preserve, and protect what they value. According to the COR theory, people typically spend their money to protect against future resource depletion (Westman, Hobfoll, Chen, Davidson, & Laski, 2004).

Previous studies (Harymawan et al., 2021; Kaur, 2021; H. Liu & Zhang, 2023; T. Liu, 2022) found that companies experiencing financial distresses will reduce their involvement in ESG. This is because companies with difficult financial conditions prefer to make investments that allow them to obtain immediate results. The indirect result of social activities prevents financially distressed companies from investing to quickly improve their financial condition.
H1: Financial distress has a negative effect on ESG performance

2.2 Managerial myopia regarding the ESG performance of the organization

Viewed from the upper echelon theory Jiang and Hui (2023), it has been demonstrated that managers' actions and decisions are influenced by their values and cognitive frameworks, which in turn influences their objectives and strategic decisions. Therefore, narrow-minded managers will certainly affect the implementation of ESG in the company. Myopic managers typically cut back on funding for long-term innovation (Sheng, Guo, & Chang, 2022), resulting in a decrease in innovation output. The practice of reducing advertising expenditures is another way in which myopic managers contribute to poor ESG performance. Research related to ESG and company value (Albuquerque, Koskinen, & Zhang, 2019; Gillan et al., 2021) links advertising interactions as drivers of interactions between ESG and company value. The impact of ESG on business value will eventually be affected by this decrease in advertising. Therefore, managers who behave myopically by reducing and cutting investments in R&D and advertising costs can eliminate the positive effects of ESG on the company.

Prior research (Ding, Jiang, Zhang, & Zhang, 2024; Fan, Chen, & Mo, 2024; H. Liu & Zhang, 2023) found that myopic managers prioritize short-term performance, thus ignoring the importance of ESG for the company. Myopic management typically prefers projects that are simple to complete, low-risk, and yield quicker profits over costly, expensive, and lengthy-term initiatives. ESG requires sustainable long-term investment and, of course, a lot of funds. This is why myopic managers are reluctant to invest in ESG.
H2: Managerial myopia has a negative effect on ESG performance

2.3Financial distress on company ESG performance seen through earnings management

To present the company in the best possible light and avoid market sanctions from a significant drop in the company's stock price, which would lead to a reduction in manager compensation, companies with managers experiencing high levels of financial distress may use accrual-based earnings management, which boosts earnings (Viana Jr et al., 2022). Due to a lack of a developed regulatory framework, extremely concentrated ownership, numerous governance problems, and significant macroeconomic volatility, businesses in financial distress in developing economies often manipulate their earnings (Almubarak et al., 2023). In addition, earnings management practices in companies have been found to impact the implementation of ESG in companies. Companies that implement earnings management attempt to boost their ESG activities. According to Ningsih, Prasetyo, Puspitasari, Cahyono, and Kamarudin (2023),a positive correlation was found amid earnings management methods and sustainability reporting disclosures in Indonesia. In an effort to keep their employment, managers who engage in earnings management practices will participate in a variety of initiatives to build connections with stakeholders and engage in environmental initiatives to win their support (Prior et al., 2008).

Therefore, the pressure from financial distress will make managers try to improve financial reporting to hide the company's financial status from the outside world through earnings management. Companies that implement earnings management will improve their ESG reporting to cover up their opportunistic actions by presenting a responsible and ethical image to stakeholders to increase their legality.
H3: Financial distress has a positive effect on ESG performance as seen through earnings management

2.4 Managerial Myopia on company ESG performance seen through earnings management

From the time-oriented focus in the realm of social psychology theory, managerial myopia was introduced (Yang et al., 2023), demonstrating that human time perception is both a conscious intrinsic function and an innate, stable characteristic. Managerial myopia encompasses a diverse spectrum of behaviors (Lu et al., 2024). Actions such as cutting back on R&D expenditures and falsifying operational outcomes to instantly enhance the appearance of financial reports are examples of this behavior.

Previous research has found that sustainable companies are greater integrity and openness during the the procedure of financial reporting and are less involved in earnings management during the pandemic (El-Feel, Mohamed, Amin, & Hussainey, 2024). The adversarial connection between earnings management and social responsibility suggests that managers of more socially responsible business actors behave more ethically, thus affecting the standard of company financial reporting (Gaio et al., 2022; Gonçalves et al., 2021).
H4: Managerial myopia has a negative effect on ESG performance as seen through earnings management

3. Research methodology

This study is quantitative and uses secondary data. Non-financial companies listed on the IDX from to 2013-2022 will be the sample of this study. Purposive sampling was used based on the following criteria: non-financial companies that have an ESG Score in Revinitiv Eikon and publish financial statements and annual reports from to 2013-2022. Financial companies are excluded from this study to prevent bias because their particular business operations and reporting may not be directly comparable to non-financial organizations. This study uses 22 companies as the sample.

ESG performance in this study was measured using the ESG Score, while financial distress was determined using the Altman Z”-Score method. The managerial myopia variable was measured by following Anderson and Hsiao (1982) by calculating the estimated ROA and marketing costs, then comparing the estimated ROA and estimated sales and marketing costs with the real ROA and real sales and marketing costs. In the case of a company with positive financial performance (ROA) and declining sales and marketing costs (Mktg), the company can be categorized as having managerial myopia. This is because companies try to improve their short-term financial performance and cut marketing costs (Salehi et al., 2024). Discretionary accruals based on Dechow, Sloan, and Sweeney's modified Jones model were used to measure the moderating variable.

This study used the PLS-based SEM analysis method. PLS-SEM is a non-parametric method that does not require data distribution assumptions. The PLS-SEM method is based on total variance analysis and includes measurement and structural models. The primary goal of PLS-SEM is to forecast and clarify the links between variables.

4. Results and discussion

4.1 Summary of PLS-SEM Results

4.1.1 Significance Test and Path Coefficient Test

Table 1. Results of Significance Testing and Path Coefficients

	Path Coefficient	T Statistics	P Values
Financial Distress (X1) -> ESG (Y)	-0.084	1.358	0.175
Myopia (X2) -> ESG (Y)	-0.018	0.271	0.786
Financial Distress (X1) -> Earnings Management (Z)	-0.022	0.822	0.411
Myopia (X2) -> Earnings Management (Z)	0.035	0.451	0.652
Earnings Management (Z) -> ESG (Y)	-0.282	5.202	**0.000**

Source: SmartPLS data processing results (2024)

Based on the significance test findings in Table 1, it is discernible that companies with financial distress will reduce their ESG implementation, but this influence does not significantly affect ESG performance. Considering the relevance test findings of the T-statistic with a value of 1.358 <1.96, a P-value of 0.175> 0.05, and a path coefficient of -0.084, the company's ESG is negatively impacted by financial distress; however, this impact is negligible. Thus, H1 is rejected. Furthermore, the test results show that managerial myopia has a minor yet detrimental impact on ESG. The results of the significance test show a T-statistic of 0.271 <1.96 and a P value of 0.786> 0.05, and a path coefficient with a value of -0.018, so the myopia variable has an insignificant negative effect on the business's ESG performance. Thus, H2 is rejected.

In Table 1, it is known that the results of the financial distress test on earnings management have no significant effect, with significant test results from the T-statistic of 0.822 <1.96 and a P value of 0.411> 0.05, and a path coefficient value of -0.022, so this study found that financial distress has a detrimental and negligible impact on how businesses handle their earnings. Another test is for managerial myopia in earnings management. The PLS-SEM analysis findings demonstrated that the statistical test of the T-statistic value was 0.451 <1.96 and a P value of 0.652> 0.05, and a path coefficient value of 0.035. Thus, it is concluded that managerial myopia has a positive but minimal impact on earnings management.

According to the SmartPLS test findings, earnings management has a major detrimental impact on a company's ESG performance. This implies that businesses that engage in earnings management tend not to be involved in ESG activities. The results of the statistical test show a T-statistic value of 5.202>1.96 and a P value of 0.000 <0.05, and a path coefficient value of -0.282, it is concluded that the ESG performance of the business is negatively impacted by earnings management.

Table 2. Results of Significance Testing and Path Coefficients (Mediation Effect)

	Original Sample (O)	T Statistics	P Values
Financial Distress (X1) -> Earnings Management (Z) -> ESG (Y)	0.006	0.798	0.425
Myopia (X2) -> Earnings Management (Z) -> ESG (Y)	-0.010	0.434	0.665

Source: SmartPLS data processing results (2024)

Table 2 shows the connection between financial distress and the ESG performance of the company as seen through earnings management. Based on the findings of the significance test, the T-statistic was 0.798 <1.96 with a P-value of 0.425> 0.05 and a path coefficient value of 0.006. Therefore, financial distress has a minor but beneficial impact on a company's ESG performance, mediated by earnings management practices. This shows that when businesses encounter financial challenges, they frequently use earnings management practices to hide their financial condition, and the company will improve its ESG performance to give the image that the company is committed to sustainability. However, these results are not strong enough, as indicated by the significance value that does not meet the criteria; therefore, it is concluded that H3 is rejected.

Considering the test findings in Table 2, the discovery was that managerial myopia adversely impacted the ESG performance of the business, as seen through earnings management. Based on the findings of that significance test with a T-statistic value of 0.434 <1.96 with a P-value of 0.665> 0.05 and a path coefficient value of -0.010, it is possible to conclude that the connection between The ESG performance of the organization is negatively but negligibly impacted by managerial myopia characteristics, as seen through earnings management practices. Therefore, H4 is rejected in this study.

4.1.2 Coefficient of Determination (R2 Test)

Table 3. Results of Determination Coefficient Test (R Square)

	R Square
ESG (Y)	0.183
Earnings Management (Z)	0.002

Source: SmartPLS data processing results (2024)

Considering the test findings displayed in Table 3, it has been determined that the worth of financial distress and managerial myopia contribute an influence of 0.002 or 0.2% to the earnings management. The remaining 99.8% is the influence of other variables that were not studied. Furthermore, the variables of financial distress, managerial myopia, and earnings management together provide an influence of 0.183 or 18.3% on The ESG performance of the business. The remaining 81.7% is the influence of variables not studied.

4.1.3 Effect Test

Table 4. Results of Effect Testing

	F Square	Cohen F Square Range	Effect Size
X1 > Y	0.008	0.02 – 0.15	Weak
X2 > Y	0.000	< 0.02	No Effect
X1 > Z	0.000	< 0.02	No Effect
X2 > Z	0.001	< 0.02	No Effect
Z > Y	0.097	0.02 – 0.15	Weak

ESG (Y); Financial distress (X1); Myopia (X2); Earnings management (Z)

Source: SmartPLS data processing results (2024)

In Table 4, it can be seen that the financial distress variable, the mediating variable, namely, earnings management, has little impact on the ESG performance of the business. This is evident from the outcomes of the comparison between F2 and Cohen's F2 of each variable (F square X1 = 0.008 and Z = 0.097), which are both in the range of 0.02–0.15. This study used 22 Indonesian companies as samples and concluded that financial distress and earnings management variables have a weak effect on the implementation of ESG in the company. This means that even though these factors exist in the company, they do not strongly influence companies to increase the implementation of ESG.

Furthermore, the business's ESG performance is unaffected by myopia characteristics. Based on the test results, the F square value of the myopia variable was 0.000, which was at the limit of <0.02. Thus, from the sample of non-financial companies studied, managerial myopia does not have a strong impact on the implementation of ESG in the company. Meanwhile, the variables of financial distress and managerial myopia do not affect the earnings management variable, with F squares of 0.000 and 0.001 for each variable, respectively, on the threshold <0.02. Therefore, it can be concluded that in this study, the variables of financial distress and managerial myopia do not provide a significant contribution to the company's earnings management practices.

4.2 Discussion

4.2.1 Financial distress on corporate ESG performance

This study attempts to determine whether a company's financial distress hinders its ESG activities. Data from 22 non-financial companies listed on the IDX revealed that financial distress negatively affects ESG. Companies tend to be reluctant to engage in ESG activities when they experience financial problems. However, this influence is not significant enough to affect the implementation of ESG in Indonesian firms. The findings of this investigation are consistent with those of Harymawan et al. (2021), Kaur (2021), and H. Liu and Zhang (2023)which found that companies with financial distress situations reduce their investment in ESG or CSR.

This business's actions are consistent with the Conservation of Resources (COR) theory, which states that the threat of losing resources has the same dangerous consequences as acquiring them, and individuals tend to invest the resources they have to protect against future resource loss. Companies experiencing financial distress need the resources they have to be able to improve their financial condition immediately. Although many positive values can be obtained from implementing ESG (Kaur, 2021), ESG performance does not produce instant results in the form of profits for companies that might help them get out of the financial distress they are facing.

4.2.2 Myopia among managers on business ESG performance

This study found that myopic behavior negatively impacts ESG. This conclusion shows that companies whose managers experience myopia reduce their involvement in ESG. However, this influence is not strong enough to affect the implementation of ESG practices in Indonesian companies. The study's conclusions are consistent with those of earlier studies (Ding et al., 2024; Fan et al., 2024; H. Liu & Zhang, 2023) which documented that managerial myopia weakens the implementation of ESG in companies. This behavior is caused by myopic managers who are often driven by pressures for financial performance, short-term stock performance, or personal reputation, salary, and other interests (Lu et al., 2024). Managers who prioritize short-term profits can overlook the significance of ESG and its potential impact on a company's financial results (H. Liu & Zhang, 2023). According to upper echelon theory (Li & Wu, 2023), myopic managers tend to prioritize stock prices and short-term financial success over long-term business priorities, so the strategic decisions made by managers will typically focus on short-term, high-reward initiatives.

4.2.3 Financial distress on company ESG performance as seen through earnings management

Financial distress has a positive effect on ESG performance of the company as seen through earnings management strategies. However, this outcome is not significant enough to influence ESG implementation in Indonesian companies. However, this positive result implies that businesses in financial trouble will attempt to conceal their financial circumstances from the outside world by conducting earnings management, which is consistent with the findings of (Chen, Chen, and Huang (2010), Habib, Uddin Bhuiyan, and Islam (2013), and Viana Jr et al. (2022). The implementation of this earnings management will trigger the aspiration of businesses to enhance their ESG performance to cover up their opportunistic actions by giving the impression that the company is socially responsible to stakeholders, according to several previous studies (Almubarak et al., 2023; Bergquist & Sletten, 2020; Fadhilah & Suranta, 2023; Habbash & Haddad, 2020; Ningsih et al., 2023; Prior et al., 2008).

There are three basic arguments for why companies experiencing financial distress have high ESG performance, as seen through earnings management. First, companies experiencing financial distress use earnings management to hide their financial performance. To cover their earnings management practices, managers divert stakeholders' attention by highlighting ESG performance. This is done by forming impression management by giving the impression of higher disclosure to cover up earnings management (Ningsih et al., 2023). Companies obscure their financial distress by focusing on ESG disclosure, which is more cost-effective than investment activities that require capital. Therefore, the company's ESG score increases through ESG disclosure.

Second, companies experiencing financial distress use earnings management to cover up unethical practices. To avoid sanctions for unethical behavior and declining financial conditions, companies use ESG to protect themselves and satisfy stakeholders, hoping that this action will make it easier for them to obtain capital sources and build a positive corporate image.

Third, managers manipulate earnings when experiencing financial distress to avoid negative impacts such as dismissal, tarnished reputation, or incentive cuts. To avoid the consequences of these unethical practices, managers need protection from stakeholders; therefore, managers who control profits are motivated to grow an environmentally amiable image to gain support from stakeholders (Habbash & Haddad, 2020), thereby reducing the likelihood of dismissal. Thus, managers use ESG as a bulwark to satisfy stakeholders.

4.2.4 Managerial myopia towards company ESG performance through earnings management

This study found that managerial myopia behavior has a negative and insignificant impact on a company's ESG performance, as seen through earnings management. According to these findings, myopic managers are more likely to reduce their commitment to ESG. Companies with myopic managers frequently engage in earnings management to polish their financial statements to achieve their desired short-term targets. These results are by prior research (Brochet, Loumioti, & Serafeim, 2015; Salehi et al., 2024; Tunyi, Ntim, & Danbolt, 2019). With the managerial myopia that management has and the earnings management practices they carry out, managers are reluctant to engage in ESG practices. This shows that earnings management practices reduce the application of ESG in businesses, these findings are the same as previous studies (Gonçalves et al., 2021; Martínez-Ferrero, Gallego-Álvarez, & García-Sánchez, 2015; Sun, Chen, Jiao, & Feng, 2024; Velte, 2019), which found that companies implementing ESG have fewer earnings management practices. ESG reflects information disclosure and ethical behavior that are incompatible with earnings management. The impact of managerial myopia on the ESG performance of a business, as seen from earnings management practices, can be observed in three ways. First, from an environmental perspective, to avoid losses, myopic supervisors might use economic manufacturing techniques that affect the environment. Myopic managers tend to prioritize their personal reputation and obtain rewards to prevent losses through earnings management (Cui & Zhu, 2024). On the other hand, businesses that manipulate earnings are typically less environmentally friendly; polluting companies are the most politically visible and therefore have greater incentives than more environmentally friendly companies to control their income downward to reduce the resulting political costs from their poor environmental performance (Gargouri, Shabou, & Francoeur, 2010).

Second, from a social perspective, companies with myopic managers tend to ignore employee welfare, customer rights, and community relations, which are seen as additional costs and hinder them from maximizing short-term profits. When companies implement ESG, these activities encourage employee diversity, union membership, and worker activism to inhibit opportunistic managerial policies such as earnings management practices. Thus, companies that implement earnings management will be reluctant to contribute more to ESG practices because of the emergence of monitoring risks that they cannot control.

Third, from the governance perspective, companies with weak governance provide space for managers to prioritize their personal goals over company goals. In addition, myopic managers can use earnings management to increase stock prices by distorting controllable investments, making short-term positive announcements, and temporarily hiding bad news (Salehi et al., 2024). A good governance system can limit the occurrence of fraud and irregularities, such as earnings management and corruption (Gargouri et al., 2010). In addition, with good governance, companies can inhibit information asymmetry between managers and stakeholders, thereby reducing earnings management (El-Feel et al., 2024), because businesses that use ESG are expected to offer trustworthy financial data. Consequently, because of the impact of management myopia, the disclosure of both financial and non-financial information, including ESG, is susceptible to a decline in information quality, which eventually harms the company's ESG performance (Lu et al., 2024).

5. Conclusion

5.1 Conclusion

This study investigates the impact of financial *distress* and managerial myopia on corporate ESG performance, as seen through earnings management practices. The findings indicate that companies experiencing financial distress reduce their involvement in sustainability activities. This is because the company's resources are insufficient to engage in ESG activities. The same results apply to companies whose managers are myopic, tend to focus more on short-term performance, and are reluctant to engage in ESG activities. This is due to the opportunistic behavior of managers who are reluctant to take risks and focus more on short-term profits and stock price targets. Different results were found when earnings management was used as a mediator between financial distress and investment efficiency. Financial distress has a positive *impact* on *ESG-related a*ctivities related to ESG as seen in earnings management. This implies that companies experiencing financial distress will use strategies to manage earnings to cover up their financial situation from the outside world. Ultimately, this earnings management practice triggers the company's desire to enhance its ESG performance to provide a favorable impression and give the impression of higher disclosure to cover up the earnings management actions. Finally, this study investigates the impact of managerial myopia on ESG performance, as seen through earnings management practices in companies. The results of this *study* indicate that myopic managers frequently take part in managing earnings to polish their financial reports, with the earnings management practices they carry out causing managers' reluctance to engage in ESG.

5.2 Limitation and Suggestion

This study is not free from limitations, including the limited data available for measuring managerial myopia. This study cannot compare ROA with sales and marketing costs (Mktg) and research and development costs (R&D). Researchers have suggested replacing myopia measurements using other methods, such as text analysis measurements proposed by Borchert et al. (2015). In addition, this study did not investigate the low motivation of companies towards ESG and its impact on company performance. Therefore, it is hoped that further research can compare companies that are active in ESG with companies that ignore it due to financial distress or myopia to see significant differences in long-term financial performance. Another limitation is the use of data from to 2013-2022, where ESG policies in Indonesia have changed significantly over the past ten years. ESG scores could be affected by regulatory changes made by the government; therefore, further research can explore the role of regulators in encouraging the implementation of ESG in companies.

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