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THE RELATIONSHIP BETWEEN THE COMMITMENT OF COMPANIES IN CORPORATE SOCIAL RESPONSIBILITY AND ACCOUNTING POLICIES

Doctoral student

Khayria Amarna

Supervised by:

Dr. María Victoria López Pérez

Dr. Raquel Garde Sánchez

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Autor: Khayria Amarna
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Khayria Amarna

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INTRODUCCION
I.

Los compromisos ambientales sociales y de gobernanza (ASG) asumidos por la empresa implican una mayor transparencia y fiabilidad de la información, suponen una reducción de las asimetrías informativas entre gestores y usuarios, pueden tener efectos sobre los indicadores de desempeño financiero y no financiero y pueden llevarnos a contrastar la calidad y consistencia y coherencia de las políticas adoptadas, principalmente en relación con prácticas contables equívocas y de elusión fiscal. El esfuerzo necesario para la sostenibilidad a largo plazo exige que las medidas adoptadas por las empresas no sean meras políticas para legitimar sus actuaciones, sino que se dirijan a la consecución de los objetivos establecidos en la misión y visión de las empresas en la actualidad, que deben ser coherentes con los principios éticos. Muchos de estos objetivos están recogidos en los «Objetivos de Desarrollo Sostenible 2030».

El análisis conjunto de los aspectos financieros y no financieros permitirá vislumbrar nuevas vías de mejora, que pueden servir de referencia a las instituciones para establecer estándares que sirvan de guía a las entidades.

La mejora de la información y su análisis constituyen un apoyo necesario para la toma de decisiones en las que los recursos son escasos. También permitirá analizar la coherencia de las políticas adoptadas, proporcionando a los grupos de interés más información para la toma de decisiones.

En los últimos años ha habido un gran interés por la divulgación de información no financiera o medioambiental, social y de gobierno corporativo (ASG). Desde el punto de vista institucional, existe interés por la aplicación y el desarrollo de la divulgación de información ASG. Así, la profesión contable, los reguladores y otros organismos públicos como el GRI, la IFRS Foundation, la International Federation of Accountants (IFAC), el Sustainability Accounting Standard Board (SASB), el World Business Council for Sustainable Development (WBCSD), Carbon Disclosure Project, European Green Deal,

así como los responsables del IASB, FASB, IFAC e IOSCO -los principales organismos profesionales de contabilidad y auditoría-, han mostrado interés en la delimitación de sus contenidos (Guthrie et al., 2017). Centrándonos en el ámbito europeo, en abril de 2013 la Comisión Europea anunció la propuesta de fomentar una mayor divulgación de la información no financiera, como resultado de un mayor compromiso para integrar las preocupaciones sociales, ambientales, de derechos humanos y de los consumidores en sus operaciones y estrategias (Comisión Europea, 2011: 6). El Pacto Verde Europeo del 14 de enero de 2020 establece un plan de acción para hacer sostenible la economía de la UE, con un plan de inversiones que también requiere la actuación de los agentes privados. El Pacto Verde tomó el Acuerdo de París y la Agenda 2030 y los Objetivos de Desarrollo Sostenible como marco para hacer frente al cambio climático y sirvió de base para el desarrollo legislativo que conducirá a la consecución de los objetivos propuestos para 2050.

La información no financiera se recoge a través de diferentes tipos de informes (informes de sostenibilidad, informes integrados, informes de responsabilidad social corporativa, etc.). Cada uno de estos informes tiene una finalidad y utilidad (Romero et al, 2019; Stolowy y Paugam, 2018), pero la dispersión de la información dificulta tener una visión global de una realidad compleja. En este sentido, se está demandando a las empresas un esfuerzo adicional para proporcionar información financiera y ASG de forma conjunta, orientada a atender las necesidades de todos los grupos de interés (Bernardi y Stark, 2018), a proporcionar una visión global de la empresa, a poder analizar con mayor profundidad las interacciones con los distintos grupos de interés, así como a poner de manifiesto incoherencias o indicios de falta de fiabilidad entre las distintas políticas adoptadas por las empresas. Podría decirse que el pensamiento integrado conduce o exige la consideración conjunta de elementos financieros y no financieros (Al-Haytabat y von Alberti-Al-Haytabat, 2018) y es cada vez más relevante para orientar el futuro de las organizaciones.

El esfuerzo requerido para la sostenibilidad a largo plazo exige que las medidas adoptadas por las empresas no constituyan meras políticas de legitimación de sus actuaciones, sino que estén orientadas a la consecución de los objetivos fijados en las políticas, estrategias y planes medioambientales (Choi & Luo, 2021; Flammer & Bansal, 2017).

II. JUSTIFICACIÓN Y CONTRIBUCIÓN ESPERADA DE LA INVESTIGACIÓN

La adopción de normas no financieras no supone una ruptura con lo que venían haciendo las empresas, sino un paso adelante en el esfuerzo por hacer esta información comparable y auditable. Desde el año 2000, las empresas vienen desarrollando y divulgando sus políticas sociales, medioambientales y de gobierno corporativo. A esto hay que añadir, desde la década de 2010, las acciones para la estandarización de este tipo de información. Esta realidad ha supuesto que el volumen de información y su calidad estén mejorando significativamente (Pistoni et al. 2018; Torelli et al., 2019), lo que ofrece la posibilidad de profundizar y avanzar en la evaluación de la creación de valor a largo plazo (Dilling y Harris, 2018; IIRC, 2011), identificar y medir con mayor fiabilidad los riesgos actuales y futuros relacionados con la sostenibilidad, los aspectos financieros y «reputacionales» (Baboukardos y Rimmel, 2016) o los recursos intangibles no contabilizados por las organizaciones (Lourenco et al. 2014) o considerar las interrelaciones entre las distintas dimensiones que conforman la actividad de la entidad (Lozano y Huisingh, 2011).

También permite analizar cómo afectan al modelo de negocio, mostrando una visión concisa de las principales acciones, amenazas y oportunidades para evaluar la sostenibilidad del modelo de negocio o prestación de servicios (IIRC, 2013) y la integración del compromiso de los grupos de interés (Al-Htaybat y von Alberti-Alhtaybat, 2018).

La literatura se ha centrado hasta ahora principalmente en el análisis del grado de aceptación de este informe, en su generación y producción, y en los análisis cuantitativos (cantidad de información divulgada) más que cualitativos, pero no ha profundizado en los diferentes aspectos que componen la información divulgada, el impacto de las interacciones que se producen entre las diferentes áreas y facetas (Rinaldi et al., 2018), en las políticas financieras o el efecto de las prácticas reales de earnings management. La agregación de información tanto financiera como no financiera tiene el potencial de ampliar el alcance de los sistemas contables, de la consideración conjunta de elementos no financieros y financieros en la estrategia empresarial (Esch et al. 2019a; Esch et al, 2019b),

de promover cambios en los procesos de información, de proporcionar una perspectiva más amplia de la creación de valor (McNally y Maroun, 2018) y de servir de base para la estandarización institucional.

III. PROBLEMA OBJETO DE ESTUDIO

Si bien la evolución de los compromisos ambientales, sociales y de gobierno corporativo ha llevado a que sean un elemento estratégico junto a otras políticas empresariales (Avram et al., 2018; Rodríguez et al., 2020), también existe la posibilidad de que estas prácticas estén siendo utilizadas como una herramienta de legitimación del desempeño de la empresa para mitigar los efectos adversos de prácticas empresariales equívocas o escándalos financieros (Brunton et al., 2017; Peterson y Su, 2017); es decir, como una herramienta de greenwashing o para contrarrestar información engañosa. Esto nos plantea analizar la consistencia de las distintas prácticas empresariales para juzgar y contrastar, en primer lugar, si los compromisos adquiridos en las políticas ASG y financieras están orientados a favorecer o atender los requerimientos de los grupos de interés y los efectos que tienen sobre los distintos stakeholders con los que interactúa la entidad. En segundo lugar, si los compromisos ASG repercuten en las prácticas de gestión de los beneficios reales.

La investigación se ha centrado principalmente en los aspectos medioambientales (Sudusinghe y Seuring, 2022), mientras que el análisis de los aspectos económicos a los que se refiere la triple cuenta de resultados se ha centrado sobre todo en la distribución del valor añadido generado entre los grupos de interés o en los efectos de los indicadores ASG sobre los resultados financieros. Sin embargo, el uso de las políticas financieras para satisfacer las demandas de los grupos de interés, así como el análisis del uso de la información ASG para ocultar o contrarrestar el efecto de las prácticas contables engañosas (Samuels et al., 2021) o la presentación de informes erróneos (Davidson, 2022) apenas se ha abordado y, sin embargo, es decisivo en el análisis de la sostenibilidad a largo plazo. La idea subyacente es que los compromisos ASG deben ser coherentes con las políticas financieras aplicadas, entendiendo que la responsabilidad social corporativa tiene que ver con el sentido ético de las empresas y su relación con la sociedad (Mitnick, 2023). En otras

palabras, tanto las acciones ESG como las financieras deben responder a los mismos principios éticos y, en este sentido, perseguir los mismos objetivos de fiabilidad e integridad.

La mejora de la información financiera y no financiera sirve como herramienta para la elaboración de informes internos, en la medida en que proporciona una imagen más completa del impacto de la estrategia de la organización, pero también para la comunicación entre las organizaciones y los grupos de interés y la sociedad en general (Esch et al., 2019a). Las empresas dependen e interactúan con diversos grupos, individuos y recursos de los que dependen (Porter y Kramer, 2002) y que contribuyen a la continuidad de la organización. Esta realidad obliga a la entidad a tener en cuenta no solo sus objetivos y metas, sino a integrar las demandas e intereses de los agentes internos y externos, también los de carácter financiero, alineándolos en la estrategia empresarial (Jamali y Neville, 2011), y ver los efectos que su integración tiene sobre los distintos grupos de interés.

Cuando se habla de alinear y equilibrar intereses (Brunton et al. 2017) es necesario tener en cuenta a empleados, clientes, proveedores, inversores, prestamistas o acciones dirigidas a la sociedad en general.

Desde el punto de vista económico, los grupos de interés tienen intereses diferentes y a veces contrapuestos. A través de las medidas que la empresa pone en marcha, es posible estudiar aquellas que mejoran las relaciones con las partes interesadas en el ámbito de la responsabilidad económica. En este sentido, la adopción de normas de responsabilidad social debería conducir a la adopción de políticas que favorezcan a los miembros de la cadena de valor.

Así, se plantean dos preguntas de investigación ¿Está relacionada la información ASG con la reducción de las prácticas de earnings management? ¿Se utilizan las prácticas contables como mecanismo para introducir ventajas económicas para los grupos de interés? El objetivo es distinguir entre las prácticas de gestión que pretenden favorecer a los grupos de interés y las que podrían calificarse de manipulación contable.

El otro tipo de prácticas contables hace referencia a las prácticas de elusión de impuestos, que puede utilizarse como indicador indirecto del nivel de responsabilidad social mostrado por una empresa (Armstrong et al., 2019). Los gobiernos dependen en gran medida de los ingresos fiscales para redistribuir la renta y financiar servicios sociales como la sanidad, la educación, el transporte público, la defensa y otros que son esenciales para mantener la armonía social y fomentar el crecimiento económico (Makni et al., 2019). Los impuestos financian los servicios públicos (Freise et al., 2008), por lo que evitarlos es perjudicial (Lanis y Richardson, 2012). Las empresas realizan importantes contribuciones a la sociedad a través del pago de impuestos. En este sentido, la pregunta propuesta es ¿El uso de la divulgación ESG reduce las prácticas de elusión fiscal en las empresas?

Por otro lado, el Estado permite a las empresas deducir algunas inversiones y gastos relacionados con actividades filantrópicas, mecenazgo e inversiones que aseguren la sostenibilidad, entre otros tipos de inversiones y gastos. Dado que una parte importante de estos gastos se incluye en la estrategia ASG de las empresas, podemos hablar de coherencia entre la política fiscal y la estrategia ASG de las empresas en este sentido. En este sentido, nos planteamos la siguiente pregunta: ¿Utilizan las empresas las prácticas fiscales de forma ética y alineada con las iniciativas ESG en beneficio de la sociedad?

Además, la creación de valor se produce como resultado de las interacciones entre múltiples factores de la cadena de valor. Los vínculos entre los indicadores de resultados financieros y no financieros son importantes de evaluar debido a la naturaleza compleja de las empresas. En consecuencia, se postula la siguiente pregunta: ¿La relación entre la divulgación de información ASG y las prácticas contables (earning management y prácticas de elusión fiscal) se ve moderada por los indicadores de resultados financieros?

A partir de las preguntas anteriores, nos centramos en cómo la empresa debe utilizar la divulgación ESG para beneficiar a la sociedad y debe evitar cualquier práctica de manipulación contable. Sin embargo, las empresas también aplican iniciativas ASG para obtener ventajas a cambio. Una de las ventajas esenciales que buscan las empresas es la reducción del coste de la financiación. La decisión sobre cómo financiarse es muy importante para las empresas, y cualquier factor que influya en esta decisión también es

importante. Se puede tener en cuenta que el incumplimiento de la normativa de prestamistas e inversores puede impedir la financiación o aumentar su coste (Cheng et al., 2014). Las restricciones de financiación limitan las decisiones de inversión y las alternativas de estructura de capital (Hennessy y Whited, 2007). La percepción del riesgo por parte de los financiadores aumenta los costes de los préstamos. Así pues, los prestamistas e inversores pueden requerir información antes de ofrecer a la organización menores costes de deuda y capital. Estos grupos de interés necesitan información financiera y no financiera. Los informes ASG serían la información no financiera más solicitada (Raimo, 2020; Vitolla, 2019). Reducen la asimetría de la información, ayudan a analizar los riesgos medioambientales, sociales y de gobernanza, y demuestran la responsabilidad ante los grupos de interés, la sociedad y el medio ambiente (Chen et al., 2009; Eccles, 2012; El Ghoul, 2011). Así pues, es crucial determinar si los grupos de interés (acreedores e inversores) valoran la información ASG tanto como la divulgación de la misma y cómo utilizan esta información a la hora de conceder préstamos o invertir. Por lo tanto, se plantea la siguiente pregunta de investigación ¿Las empresas que aplican prácticas ASG obtienen un menor coste de financiación?

Por otro lado, también debería ser imprescindible pensar en cómo se valoran los riesgos de las empresas. La información ASG puede utilizarse para valorar los riesgos operativos, y los datos financieros pueden utilizarse para valorar los riesgos financieros. Pero es importante pensar en la ética de esta información, por lo que es relevante evaluar la fiabilidad de la información ASG y de la información financiera. La fiabilidad de la información ASG puede juzgarse por el grado de confianza de los grupos de interés en la divulgación de información ASG, mientras que la fiabilidad de la información financiera puede juzgarse analizando si las empresas realizan o no prácticas de earnings management. Pero los directivos podrían utilizar la divulgación de información ASG de forma oportunista (Jadiyappa et al., 2021) y utilizar su reputación y su efecto de legitimación para ocultar posibles manipulaciones e intentar engañar a prestamistas e inversores. Por lo tanto, es importante investigar si los grupos de interés tienen en cuenta o no la credibilidad de la información ASG junto con la información financiera para desarrollar una comprensión completa de la situación de las empresas antes de decidir prestar o invertir. De ahí que surja

la pregunta de investigación ¿Son conscientes los inversores y acreedores de las prácticas engañosas cuando deciden conceder financiación?

En definitiva, el hecho de que los elementos implicados en la creación de valor formen parte de la estrategia empresarial constituye un objeto de investigación relevante, tanto para el mundo académico como para los profesionales. Desde este punto de vista estratégico, es necesario analizar cómo se articulan las políticas sociales y medioambientales junto con las políticas financieras, analizando el alcance y contenido de la información divulgada, los determinantes de la divulgación de dicha información y su efecto sobre los grupos de interés.

En relación con el marco teórico desde el que abordar los aspectos recogidos en la investigación, serán de aplicación las teorías stakeholder y stakeholder-agency, según las cuales las organizaciones tratan de satisfacer las demandas de los grupos de interés (Freeman, 1984). En casos concretos, al analizar el uso de la información divulgada ESG para contrarrestar fallos de mercado (en este caso informes engañosos o información fraudulenta), se tomará como marco teórico la teoría de la agencia o la teoría de la legitimidad (Zerbini, 2015).

La relación entre la divulgación de la RSC (Responsabilidad Social Corporativa) y la divulgación ASG (Medioambiental, Social y de Gobernanza) puede entenderse como una relación de interdependencia e inclusividad. Los informes de sostenibilidad a menudo sirven de conducto para la divulgación tanto de la RSC como de los ASG, reflejando una visión integral de los esfuerzos de sostenibilidad de una empresa (Romero et al., 2019). Mientras que la divulgación de la RSC dentro de los informes de sostenibilidad puede enfatizar las responsabilidades sociales y las prácticas éticas de una empresa (Branco et al., 2018), la divulgación ASG abarca un espectro más amplio de consideraciones, incluido el impacto ambiental, el compromiso social y las estructuras de gobierno (Lee et al., 2020). Tanto las divulgaciones de RSC como de ASG subrayan la importancia de la materialidad, integrando cuestiones relevantes que afectan a los grupos de interés y al rendimiento corporativo a largo plazo. A pesar de los esfuerzos en curso para estandarizar la información ASG, la integración cohesiva de la divulgación de la RSC dentro de los

informes de sostenibilidad contribuye a una comprensión más holística de los esfuerzos de sostenibilidad de una empresa y su compromiso con las prácticas empresariales responsables (Lee et al., 2020).

En esta investigación vamos a utilizar la divulgación ASG como medida de sostenibilidad porque esta información se utiliza en las bases de datos utilizadas en esta investigación (EIKON), y porque el informe ASG es la versión actualizada de los informes de sostenibilidad, y está interrelacionado con la responsabilidad social corporativa. No podemos utilizar ASG sin mencionar la RSC y su evolución, por lo que es oportuno mostrar la historia de la responsabilidad social corporativa. Así, los capítulos 2, 3 y 4 de la revisión de la literatura se centran en la evolución de la RSC. Como ASG es el término hacia el que ha evolucionado la RSC en este documento, utilizaremos generalmente el primero de estos términos, ya que es el más aceptado en la actualidad.

IV. OBJETIVOS

Objetivos generales y específicos.

a. OBJETIVO GENERAL

El objetivo general de la investigación es analizar, en primer lugar, cómo la divulgación de información ASG impacta en la gestión de resultados y, en segundo lugar, la forma en que las prácticas de gestión pueden ser herramientas que las empresas pueden utilizar para favorecer y fortalecer las relaciones con determinados grupos de interés. Se pretende evaluar la eficacia de las medidas adoptadas en relación con la fiabilidad de la información económico-financiera como resultado de la interacción entre variables financieras y no financieras.

La idea subyacente es que la organización recibe recursos de la sociedad y de los distintos agentes sociales con los que interactúa, con el compromiso de crear valor a largo plazo, contribuir a la sostenibilidad y recompensar a los grupos de interés. Esto hace que la organización adquiera compromisos éticos, desarrolle conciencia y sensibilidad social

en relación con los grupos de interés, incluya estos elementos en la estrategia organizativa y los refleje en la información divulgada en los ámbitos económico-financiero, social y medioambiental. Analizaremos cómo se materializan estos compromisos y estudiaremos las interacciones entre los factores financieros y no financieros y sus efectos en determinados grupos de interés.

b. OBJETIVOS ESPECÍFICOS

1. Examinar la relación entre la divulgación de información no financiera y las prácticas de gestión (real earnings management y prácticas de elusión fiscal). Entendiendo que la información es una herramienta de gestión, el objetivo sería analizar los efectos de la divulgación de información no financiera sobre:

a) la reducción de las prácticas de real earnings management y de elusión fiscal;

b) La reducción de real earnings management en los aspectos relacionados con clientes y proveedores (variaciones en el capital operativo);

c) La reducción de real earnings management en los gastos de explotación.

2. Examinar el efecto de la interdependencia y la interacción entre factores. El objetivo sería analizar el efecto moderador ejercido por los indicadores de resultados financieros sobre la relación entre las cuestiones sociales y medioambientales y las prácticas de real earnings management y de elusión fiscal:

a) Se espera que la rentabilidad refuerce la relación negativa entre la revelación de información sobre cuestiones sociales y medioambientales y las prácticas de real earnings management y de elusión fiscal.

b) Se espera que el endeudamiento reduzca la relación positiva entre la revelación de información ASG y las prácticas de real earnings management y de elusión fiscal.

c) Se espera que el valor de mercado mejore la relación negativa entre la revelación de información ASG y las prácticas de real earnings management y de elusión fiscal (entendiendo que las acciones de las empresas buscan satisfacer las demandas de los inversores a largo plazo o de los inversores comprometidos con criterios de sostenibilidad.

3. Estudiar el efecto de la información divulgada por las empresas sobre los compromisos económicos y financieros asumidos por las entidades. Se trataría de analizar los grupos de interés que pueden verse favorecidos o perjudicados por las prácticas contables, analizando el efecto que la mejora de la fiabilidad de la información y los compromisos éticos en materia económica tienen sobre:

a) Clientes. Se espera que las empresas socialmente comprometidas apliquen medidas económicas que favorezcan a los clientes y fortalezcan las relaciones. En este sentido, analizaremos el alargamiento de los plazos de pago como criterio que busca satisfacer las demandas económicas de los clientes.

b) Proveedores. Se espera que las empresas socialmente comprometidas apliquen medidas económicas que favorezcan a los proveedores y fortalezcan las relaciones. En este sentido, consideraremos el acortamiento de los plazos de pago como un criterio que busca favorecer a los proveedores.

c) Ciudadanos. Se espera que un mayor compromiso y divulgación en materia de ASG se traduzca en una disminución de las prácticas de elusión fiscal.

d) Inversores y prestamistas. Se espera que los inversores/prestamistas valoren las acciones ASG, lo que se traducirá en una reducción del coste del capital/coste de los préstamos.

Como se ha mencionado en el apartado anterior, el objetivo general de la investigación es analizar el efecto de los aspectos considerados en la información financiera y ASG sobre las distintas modalidades de real earnings management y su relación con diversas prácticas de gestión en las que podrían reflejarse los compromisos económicos con los grupos de interés.

El horizonte temporal elegido para el estudio es 2010-2019. Seleccionamos este periodo específicamente para analizar el tiempo posterior a la crisis económica mundial y anterior a la crisis COVID-19.

La muestra inicial estará formada por las 500 empresas con mayor flujo operativo de caja. El flujo operativo de caja se tomará como criterio de selección de la muestra porque creemos que predice mejor los resultados futuros que los beneficios acumulados (Healy y Wahlen, 1999). Es decir, la manipulación de los beneficios se centra en los accionistas y en el corto plazo, pero este tipo de actuación implica una disminución de los flujos de caja de explotación a medio y largo plazo (DesJardine y Durand, 2020).

En concreto, nos centraremos en dos tipos de manipulación. En primer lugar, el real earnings management que da lugar a flujos de caja de explotación anormales y, en segundo lugar, las prácticas de elusión fiscal de las empresas.

V. GESTIÓN DE BENEFICIOS REALES

Las empresas con un mayor flujo operativo de caja tienen más probabilidades de tener un flujo de caja operativo anormal (Hsieh et al., 2019), que es un indicador de manipulación contable. Dicho flujo operativo de caja puede manipularse a través de diversos elementos incluidos en la cuenta de resultados y mediante prácticas contables destinadas a influir en los cambios del capital corriente (Akono y Nwaeze, 2018). Tomar los flujos de caja de explotación nos permite no solo tener en cuenta la posible manipulación debida a la aplicación del principio del devengo, sino también la derivada de políticas empresariales anormales.

El flujo de caja operativo anormal (AOCF) puede desglosarse en varios componentes. Roychowdhury (2006) afirma que los directivos pueden manipular los flujos de caja de explotación (CFO) manipulando las ventas, la sobreproducción (coste de producción anormal) (APROD) y los gastos discrecionales - otros gastos de explotación (ADISEXP). Estas prácticas contables implican un flujo de caja operativo anormal (CFO) y tienen como objetivo alterar los beneficios (Gunny, 2010).

Además, la ACFO puede proceder de la aplicación de prácticas contables como acelerar los cobros a los clientes y retrasar el pago a los proveedores (Ebben y Johnson, 2011; Lee, 2012; Sisay y Nongmaithem, 2019).

Se propondrán varios modelos para medir el impacto de la divulgación ASG en diferentes variables que miden la manipulación contable (objetivo 1). Asimismo, se introducirán diversas variables de rendimiento financiero, tanto de la empresa como del mercado, que moderan la relación entre la divulgación ASG y la gestión real de los beneficios (objetivo 2).

Además, el objetivo sería investigar si existen variaciones significativas en las entidades que conduzcan a una mejora en las condiciones financieras de los grupos de interés, ya sea porque se otorga más crédito o se reduce el tiempo de pago (Objetivo 3). Estas políticas también afectan los flujos operativos de caja, pero no pretenden engañar sino favorecer a los grupos de interés. En este sentido, la relación entre este tipo de políticas comerciales y las prácticas ASG estaría relacionada positivamente. La divulgación de criterios ASG y las mejoras relacionadas en el desempeño corporativo pueden generar diferentes efectos, también financieros, no solo para los empleados y accionistas, sino también para la cadena de suministro (Hsu et al., 2022). En ocasiones, la cadena de suministro es remunerada a través de bonos (de Jong y van der Meer, 2017), pero esto también podría ocurrir a través de facilidades en los términos de cobro y pago, cuestión que no ha sido analizada. La mejora de las relaciones puede generar facilidades financieras para proveedores y clientes, que generalmente no se han tenido en cuenta previamente.

VI. PRÁCTICAS DE ELUSIÓN FISCAL

En el caso de las prácticas de elusión fiscal, los argumentos esgrimidos equivalen al caso del real earnings management y también buscan responder a los objetivos 1, 2 y 3. En este caso, el actor a considerar será la comunidad, el receptor de los servicios y beneficios derivados de los impuestos.

La medida habitual de elusión fiscal en la literatura es la tasa impositiva efectiva (ETR), que se calcula dividiendo el gasto tributario por el beneficio contable antes de

impuestos (Rani et al., 2018). La ETR se puede utilizar como variable proxy para la evasión fiscal. Muchos investigadores han afirmado que la ETR detecta adecuadamente la agresividad fiscal y es apropiada para ser utilizada como medida de evasión fiscal (Hoi et al., 2013; Lanis y Richardson, 2012; Rani et al., 2018). Sin embargo, existe una limitación de la ETR y es que sólo capta las diferencias permanentes que surgen de las políticas tributarias. Como prueba de solidez, se puede utilizar la tasa impositiva efectiva actual (CETR). El CETR se refiere al impuesto a pagar dividido por la ganancia antes de impuestos y, por lo tanto, tiene en cuenta las diferencias tanto permanentes como temporales que responden a políticas tributarias y reglas contables (Dyreng et al., 2016; Lanis et al., 2017; Tang, 2019). Las prácticas fiscales se miden por el grado de desviación de la ETR del tipo impositivo legal (STR). Cuanto mayor es la desviación del ETR, más se comprenden las prácticas de elusión fiscal y viceversa (Chen et al., 2010; Tang, 2019; Zeng, 2019). STR es la tasa impositiva (Tax Foundation Global Tax Policy Center).

La relación entre la divulgación de datos ASG y las prácticas fiscales podría estudiarse desde dos perspectivas diferentes. Por un lado, desde el marco de la teoría de los stakeholders, la relación podría ser negativa, ya que mayores niveles de divulgación de ASG deberían reducir la probabilidad de participar en prácticas de elusión fiscal (Kim e Im, 2017; Lanis y Richardson, 2015), que se consideran poco éticas. Mientras que, desde la teoría de la legitimidad, la relación entre las diferencias tributarias temporarias y la divulgación de criterios ASG sería positiva, en la medida en que las prácticas tributarias pueden ser el resultado de una gestión del devengo para alterar los resultados y reducir el monto de los impuestos a pagar. En este caso, la divulgación de datos ASG puede utilizarse para tratar de contrarrestar el posible efecto negativo de prácticas contables engañosas (Lanis y Richardson, 2012).

Según la teoría de la legitimidad, una empresa podría considerar la divulgación de criterios ASG como una estrategia de gestión (Godfrey et al., 2009; Shafai et al., 2018) para encubrir malas prácticas, entre ellas las prácticas de elusión fiscal (Gulzar et al., 2018; Mao, 2019; Zeng, 2019).

Como en el caso de las prácticas de real earnings management, se plantea la posibilidad de que las prácticas tributarias puedan estar relacionadas positivamente con la divulgación ASG, debido a la posibilidad que ofrece el Estado a las empresas de deducir ciertas inversiones y gastos que forman parte de su política ASG. Las empresas pueden abordar directamente los requerimientos de la sociedad a través de actividades filantrópicas y otras inversiones que la sociedad o grupos de interés demanden (Arco-Castro et al., 2020). Las empresas pueden aplicar recursos a obras benéficas, patrocinios o inversiones que el Estado contemple entre los objetivos, como las ligadas a los ODS, que suponen deducciones fiscales y que las empresas incluyen en su estrategia ASG. En esta línea, la teoría de los stakeholders sugiere que el papel de la empresa en la sociedad no sólo servirá a los intereses de sus negocios y accionistas, sino que también debe pensar y trabajar en beneficio de los stakeholders y de la sociedad en general, ocupando los impuestos un lugar central (Hill y Jones, 1992).

También se estudiará el efecto moderador de los indicadores financieros (endeudamiento, rentabilidad, valor de mercado) sobre la relación entre la divulgación de datos ESG y las prácticas de elusión fiscal.

VII. RELACIÓN ENTRE LA INFORMACIÓN DIVULGADA SOBRE ASPECTOS SOCIALES Y AMBIENTALES Y EL COSTE DEL FINANCIAMIENTO

En relación con el objetivo 3, consideramos cómo los grupos de interés perciben positivamente la divulgación de información ASG, junto con la reducción de las prácticas de real earnings management. La reducción de la asimetría de la información, la mejora de la transparencia y la mayor fiabilidad de la información financiera conducen a un menor riesgo percibido por los stakeholders. En este caso nos centraríamos en inversores y prestamistas. Se espera que esta mejor percepción se traduzca en menores costes de capital y de endeudamiento.

El resto de la tesis se organiza de la siguiente manera:

En el capítulo 1 presentamos la evolución del concepto de responsabilidad social corporativa (RSC), mientras que el capítulo 2 analiza la divulgación de ASG. El Capítulo 3 contiene los diferentes tipos de prácticas de earnings management y su relación con la divulgación de información ASG. Los capítulos 4, 5 y 6 contienen cada uno un análisis empírico para alcanzar los objetivos propuestos en la tesis. Para ello se plantean las hipótesis, se explica la metodología y el modelo seguido, se presentan los resultados y la discusión.

Así, en el capítulo 4 se analiza el efecto de los criterios ASG en las prácticas de real earnings management. En el capítulo 5 se plantea la relación entre la divulgación de información ASG y las prácticas de elusión fiscal. En el capítulo 6 analizamos el efecto de la divulgación de datos ASG y las prácticas de real earnings management sobre el coste de financiación. Finalmente, se presentan las conclusiones, limitaciones y futuras líneas de investigación.

I. INTRODUCTION

The environmental social and governance (ESG) commitments assumed by the company imply greater transparency and reliability of information, involve a reduction of information asymmetries between managers and users, may have effects on financial and non-financial performance indicators and may lead us to contrast the quality and consistency and coherence of the policies taken, mainly in relation to misleading accounting and tax avoidance practices. The effort required for long-term sustainability demands that the measures taken by companies should not be mere policies to legitimize their actions but should be aimed at achieving the objectives set out in the mission and vision of almost all companies today, which should be consistent with ethical principles. Many of these goals are set out in the "Sustainable Development Goals 2030".

The joint analysis of financial and non-financial aspects will make it possible to see new paths for improvement, which can serve as a reference for institutions to set standards that can serve as a guide for entities. The improvement of information and its analysis constitute a necessary support for decision making in which resources are scarce. It will also make it possible to analyse the coherence of the policies adopted, providing stakeholders with more information for decision-making.

This should be seen in the context that in recent years there has been a great interest in the disclosure of non-financial or environmental, social and corporate governance (ESG) information. Institutionally, there is interest in the implementation and development of ESG disclosure. Thus, the accounting profession, regulators and other public bodies such as the GRI, the IFRS Foundation, the International Federation of Accountants (IFAC), the Sustainability Accounting Standard Board (SASB), the World Business Council for Sustainable Development (WBCSD), Carbon Disclosure Project, European Green Deal, as well as the heads of the IASB, FASB, IFAC and IOSCO - the main professional accounting and auditing bodies, have shown interest in the delimitation of its contents (Guthrie et al.,

2017). Focusing on the European level, in April 2013 the European Commission announced the proposal to encourage greater disclosure of non-financial information, as a result of a greater commitment to integrate social, environmental, human rights and consumer concerns into their operations and strategies (European Commission, 2011: 6). European Green Deal of January 14, 2020 sets out an action plan to make the EU economy sustainable, with an investment plan that also requires action by private actors. The Green Deal takes the Paris Agreement and the 2030 Agenda and Sustainable Development Goals as the framework for tackling climate change and serves as the basis for legislative development leading to achieving the proposed 2050 targets.

Non-financial information is collected through different types of reports (sustainability reports, integrated reports, corporate social responsibility reports, etc.). Each of these reports has a purpose and usefulness (Romero et al, 2019; Stolowy and Paugam, 2018), but the dispersion of information makes it difficult to have a global view of a complex reality. In this sense, an additional effort is being demanded from companies to provide financial and ESG information jointly, aimed at serving the needs of all stakeholders (Bernardi and Stark, 2018), to provide a global view of the company, to be able to analyse in greater depth the interactions with the various stakeholders, as well as to highlight inconsistencies or indications of unreliability between the various policies adopted by companies. Integrated thinking arguably leads to or requires the joint consideration of financial and non-financial elements (Al-Haytabat and von Alberti-Al-Haytabat, 2018) and is increasingly relevant in guiding the future of organizations. In Europe, after a period in which companies could follow different guidelines in the preparation of their non-financial information reports, the European Sustainability Reporting Standards (ESRS) are set to be followed from 2024, progressively depending on the type of company. The effort required for long-term sustainability demands that the measures taken by companies do not constitute mere legitimization policies for their actions but are aimed at achieving the objectives set in environmental policies, strategies and plans (Choi & Luo, 2021; Flammer & Bansal, 2017).

II. JUSTIFICATION AND EXPECTED CONTRIBUTION OF THE RESEARCH.

The adoption of non-financial standards does not imply a break with what companies have been doing, but rather a step forward in the effort to make this information comparable and auditable. Since 2000, companies have been developing and disclosing their social, environmental and corporate governance policies. To this must be added, since the 2010s, the actions for the standardization of this type of information. This reality has meant that the volume of information and its quality is improving significantly (Pistoni et al. 2018; Torelli et al., 2019), which provides the possibility of a more in-depth analysis and progress in the evaluation of long-term value creation (Dilling and Harris, 2018; IIRC, 2011), identifying and measuring more reliably current and future risks related to sustainability, financial and "reputational" aspects (Baboukardos and Rimmel, 2016) or intangible resources not accounted for by organizations (Lourenco et al. 2014) or consider the interrelationships between the various dimensions that make up the entity's activity (Lozano and Huisingh, 2011). It also makes possible to analyse how they affect the business model, showing a concise view of the main actions, threats and opportunities to assess the sustainability of the business model or service provision (IIRC, 2013) and the integration of stakeholder engagement (Al-Htaybat and von Alberti-Alhtaybat, 2018).

The literature has been focused so far mainly on the analysis of the degree of acceptance of this report, on its generation and production, and on quantitative (amount of information disclosed) rather than qualitative analyses, but has not delved into the different aspects that make up the information disclosed, the impact of the interactions that occur between the different areas and facets (Rinaldi et al., 2018), on financial policies or the effect of the real earnings management practices. The aggregation of both financial and non-financial information has the potential to broaden the scope of accounting systems, of joint consideration of non-financial and financial elements in business strategy (Esch et al. 2019a; Esch et al, 2019b), to promote changes in reporting and information processes, to

provide a broader perspective on value creation (McNally and Maroun, 2018) and to serve as a basis for institutional standardization.

III. PROBLEM OF THE STUDY

While the evolution of environmental, social and corporate governance commitments has led them to be a strategic element alongside other corporate policies (Avram et al., 2018; Rodríguez et al., 2020), there is also the possibility that these practices are being used as a tool to legitimize the company's performance to mitigate the adverse effects of negligent business practices or financial scandals (Brunton et al., 2017; Peterson and Su, 2017); that is, as a greenwashing tool or to counter misleading information. This poses us to analyse the consistency of the various business practices in order to judge and contrast, firstly, whether the commitments made in ESG and financial policies are aimed at favouring or addressing the requirements of stakeholders and the effects they have on the various stakeholders with whom the entity interacts. Second, whether ESG commitments have an impact on the practices of real earnings management.

Research has focused mainly on environmental aspects (Sudusinghe and Seuring, 2022), while the analysis of the economic aspects referred to in the triple bottom line has focused mainly on the distribution of the added value generated to the various stakeholders or on the effects of ESG indicators on financial performance. However, the use of financial policies to meet stakeholder demands, as well as the analysis of the use of ESG information to hide or counteract the effect of misleading accounting practices (Samuels et al., 2021) or misreporting (Davidson, 2022) has hardly been addressed and yet is decisive in the analysis of long-term sustainability. The underlying idea is that ESG commitments must be consistent with the financial policies applied, on the understanding that corporate social responsibility is about the ethical sense of companies and their relationship with society (Mitnick, 2023). In other words, both ESG and financial actions must respond to the same ethical principles and, in this sense, pursue the same objectives of reliability and integrity.

Improved financial and non-financial disclosures serve as a tool for internal reporting in that they provide a more comprehensive picture of the impact of the organization's strategy, but also for communication between organizations and the various stakeholders and society at large (Esch et al., 2019a). Companies depend on and interact with various groups, individuals and resources on which they depend (Porter and Kramer, 2002) and which contribute to the continuity of the organization. This reality requires the entity to take into account not only its objectives and goals, but to integrate the demands and interests of internal and external agents, also those of a financial nature, aligning them in the business strategy (Jamali and Neville, 2011) and see the effects that their integration has on the various stakeholders.

When talking about aligning and balancing interests (Brunton et al. 2017) it is necessary to take into account employees, customers, suppliers, investors, lenders or actions aimed at society in general.

From the financial point of view, the various stakeholders have different and sometimes conflicting interests. Through the measures that the company implements, it is possible to study those that improve relations with stakeholders in the area of economic responsibility. In this sense, the adoption of social responsibility standards should lead to the adoption of policies that favour the members of the value chain.

Thus, two research questions are posed: ***Is ESG information related to the reduction of real earnings management? Are accounting practices used as a mechanism to introduce economic advantages for stakeholders?*** The aim is to distinguish between management practices that are intended to favour stakeholders and those that could be qualified as accounting manipulation.

The other type of accounting practices is corporate tax avoidance which may be used as a proxy for the level of social responsibility displayed by a company (Armstrong et al., 2019). Governments rely heavily on tax revenue to redistribute income and fund social services like healthcare, education, public transportation, defence, and others that are essential to maintaining social harmony and fostering economic growth (Makni et al., 2019). Taxes fund public services (Freise et al., 2008), hence avoiding them is harmful

(Lanis and Richardson, 2012). Businesses make significant contributions to society through tax payment. In this sense, the proposed question is: ***Does the use of ESG disclosure reduce tax avoidance practices in companies?***

On the other side, the state permits businesses to deduct some investments and expenses related to philanthropic activities, patronage, and investments that assure sustainability, amongst other types of investments and expenses. Because an important portion of these expenditures is included in the ESG strategy of the corporations, we may speak of consistency between tax policy and the ESG strategy of the companies in this respect. In this regard, we ask the following question: ***Does companies use tax practices in an ethical way that align with ESG initiatives to benefit the society?***

In addition, value creation occurs as a result of interactions between multiple factors in the value chain. The links between financial and non-financial performance indicators are important to evaluate due to the complex nature of companies. Accordingly, we postulate the following question: ***Does the relationship between ESG disclosure and accounting practices (earnings management and tax avoidance practices) moderated by financial performance indicators?***

From the aforementioned questions we focused on how the company should use the ESG disclosure to benefit the society and it should avoid any accounting manipulating practices. However, companies also apply ESG initiatives to get advantages in return not only spending money. One of essential benefit the companies look for is financing cost. The decision on how to finance is so imperative for the companies, and any factors influence this decision is also important. It can be taken into account that, non-compliance with lender and investor regulations may prevent financing or increase its cost (Cheng et al., 2014). Financing restrictions limit investment decisions and capital structure alternatives (Hennessy and Whited, 2007). Financiers' risk perception increases borrowing costs. Thus, lenders and investors may require information before offering the organization lower debt and equity costs. These stakeholders need financial and non-financial disclosure. ESG reports are the most requested non-financial information (Raimo, 2020; Vitolla, 2019). They reduce information asymmetry, help analyse environmental, social,

and governance risks, and demonstrate accountability to stakeholders, society, and the environment (Chen et al., 2009; Eccles, 2012; El Ghoul, 2011). Thus, it is crucial to determine if stakeholders (creditors and investors) value ESG information as much as ESG disclosure and how they use this information when lending or investing. Therefore, the research question arises: ***Do corporations that apply ESG practices get lower cost of financing?***

On the other hand, it should also be imperative to think about how the companies' risks are valued. ESG information can be used to value operational risks, and financial data can be used to value financial risks. But it is important to think about the ethics of this information, so it is relevant to evaluate the reliability of ESG information and financial information. The reliability of ESG information can be judged by how much stakeholders trust ESG disclosure, while the reliability of financial information can be judged by looking into whether or not companies engage in earnings management. But managers could use ESG disclosure opportunistically (Jadiyappa et al., 2021) and use their reputation and legitimization effect to hide their manipulative management and attempt to deceive lenders and investors. Therefore, it is important to look into whether or not stakeholders take into account the credibility of ESG information alongside financial information in order to develop a complete understanding of companies' situations before deciding to lend or invest. Hence, the research question arises: ***Are investors and creditors aware of manipulative practices when decide to provide financing?***

In short, the fact that the elements involved in value creation are part of corporate strategy constitutes a relevant object of research, both for academia and practitioners. From this strategic point of view, it is necessary to analyse how social and environmental policies are articulated together with financial policies, analysing the scope and content of the information disclosed, the determinants of the disclosure of such information and its effect on stakeholders.

In relation to the theoretical framework from which the aspects collected in the research can be addressed, the stakeholder and stakeholder-agency theories will be applicable, according to which organizations try to meet the demands of stakeholders

(Freeman, 1984). In specific cases, when analysing the use of ESG disclosed information to counteract market failures (in this case misleading reports or fraudulent information), agency theory or legitimacy theory will be taken as a theoretical framework (Zerbini, 2015).

The relationship between CSR (Corporate Social Responsibility) disclosure and ESG (Environmental, Social, and Governance) disclosure can be understood as one of interdependence and inclusivity. Sustainability reports often serve as a conduit for both CSR and ESG disclosures, reflecting a comprehensive view of a company's sustainability efforts (Romero et al., 2019). While CSR disclosure within sustainability reports may emphasize a company's social responsibilities and ethical practices (Branco et al., 2018), ESG disclosure encompasses a broader spectrum of considerations, including environmental impact, social engagement, and governance structures (Lee et al., 2020). Both CSR and ESG disclosures underscore the importance of materiality, integrating relevant issues that impact stakeholders and long-term corporate performance. Despite ongoing efforts to standardize ESG reporting, the cohesive integration of CSR disclosure within sustainability reports contributes to a more holistic understanding of a company's sustainability efforts and its commitment to responsible business practices (Lee et al., 2020).

In this research we are going to use ESG disclosure as a measure of sustainability because this information is used in the databases used in this research (EIKON), and because ESG report is the updated version of sustainability reports, and it is interrelated with corporate social responsibility and we cannot use ESG without mentioning CSR and it progression, so it is imperative to show the history of corporate social responsibility, the literature review chapters 2, 3 and 4 are focusing on CSR evolution. As ESG is the term towards which CSR has evolved in this paper, we will generally use the first of these terms, as it is the most widely accepted at present.

IV. OBJECTIVES

General and specific objectives.

a. GENERAL OBJECTIVE

The general objective of the research is to analyse, firstly, how ESG information disclosure impacts on earnings management and, secondly the way in which management practices may be tools that companies can use to favour and strengthen relations with certain stakeholders. We intend to evaluate the efficiency of the measures taken in relation to the reliability of economic-financial information as a result of the interaction between financial and non-financial variables.

The underlying idea is that the organization receives resources from society and the various social agents with which it interacts, with the commitment to create long-term value, contribute to sustainability and reward stakeholders. This makes the organization acquire ethical commitments, develop social awareness and sensitivity in relation to stakeholders, include these elements in the organizational strategy and reflect them in the information disclosed in the economic-financial, social and environmental fields. We will analyse how these commitments are materialized and study the interactions between financial and non-financial factors and their effects on certain stakeholders.

b. SPECIFIC OBJECTIVES

1. To examine the relationship between the disclosure of non-financial information and management practices (real earnings management and tax avoidance practices). Understanding that information is a management tool, the objective would be to analyse the effects of non-financial information disclosure on:

a) the reduction of real earnings management and tax avoidance practices;

b) the reduction of real earnings management in the aspects related to customers and suppliers (variations in operating capital);

c) The reduction of real earnings management in operating expenses.

2. To examine the effect of interdependence and interaction between factors. The aim would be to analyse the moderating effect exerted by financial performance indicators on

the relationship between social and environmental issues and earnings management practices and tax avoidance practices:

a) Profitability is expected to enhance the negative relationship between ESG disclosure and earnings management practices and tax avoidance practices.

b) Indebtedness is expected to reduce the positive relationship between ESG disclosure and earnings management practices and tax avoidance practices.

c) Market value is expected to enhance the negative relationship between ESG disclosure and earnings management practices and tax avoidance practices (understanding that companies' actions seek to meet the demands of long-term investors or investors committed to sustainability criteria.

3. To study the effect of the information disclosed by companies on the economic and financial commitments assumed by the entities. The aim would be to analyse the stakeholders that may be favoured or harmed by accounting practices, analysing the effect that improving the reliability of information and ethical commitments in economic matters has on:

a) Customers. Socially committed companies are expected to implement economic measures that favour customers and strengthen relationships. In this regard, we will look at the lengthening of payment terms as a criterion that seeks to meet customers' financial demands.

b) Suppliers. Socially committed companies are expected to apply economic measures that favour suppliers and strengthen relationships. In this sense, we will look at the shortening of payment terms as a criterion that seeks to favour suppliers.

c) Citizens. Increased ESG engagement and disclosure is expected to result in a decrease in tax avoidance practices.

d) Investors and lenders. Investors/lenders are expected to value ESG actions and this will result in a reduction of the cost of capital/cost of borrowing.

As mentioned in the previous section, the general objective of the research is to analyse the effect of the aspects considered in the financial and ESG information on the

various modes of real earnings management and their relationship with various management practices in which economic commitments to stakeholders could be reflected.

The time horizon chosen for the study is 2010-2019. We selected this period specifically to analyse the time after the global economic crisis and before the COVID-19 crisis.

The initial sample will consist of the top 500 companies with the highest operating cash flow. Operating cash flow will be taken as the sample selection criterion because we believe it is a better predictor of future performance than accrued earnings (Healy and Wahlen, 1999). That is, earnings manipulation focuses on shareholders and the short term, but this type of action implies a decrease in operating cash flows in the medium and long term (DesJardine and Durand, 2020).

Specifically, we will focus on two types of manipulation. Firstly, real earnings management resulting in abnormal operating cash flows and, secondly, corporate tax avoidance practices.

V. REAL EARNINGS MANAGEMENT

Firms with higher operating cash flow are more likely to have abnormal operating cash flow (Hsieh et al., 2019), which is an indicator of accounting manipulation. Such operating cash flow can be manipulated through various elements included in the income statement and through accounting practices aimed at impacting changes in current capital (Akono and Nwaeze, 2018). Taking operating cash flows makes it possible for us not only to take into account the possible manipulation due to the application of the accrual principle but also that arising from abnormal business policies.

Abnormal operating cash flow (AOCF) can be broken down into several components. Roychowdhury (2006) states that managers can manipulate operating cash flows (CFO) by manipulating sales, overproduction (abnormal production cost) (APROD) and discretionary expenses - other operating expenses (ADISEXP). These accounting

practices involve abnormal operating cash flow (AOCF) and aim to alter profits (Gunny, 2010).

In addition, ACFO can come from the application of accounting practices such as accelerating collections from customers and delaying payment to suppliers (Ebben and Johnson, 2011; Lee, 2012; Sisay and Nongmaithem, 2019).

Several models will be proposed to measure the impact of ESG disclosure on different variables measuring accounting manipulation (objective 1). Also, several financial performance variables, both firm and market, that moderate the relationship between ESG disclosure and real earnings management will be introduced (objective 2).

In addition, the aim would be to investigate whether there are significant variations in entities that lead to an improvement in the financial conditions of stakeholders either because more credit is granted, or payment time is reduced (Objective 3). These policies also affect operating cash flows, but they are not intended to deceive but to favour stakeholders. In this sense, the relationship between this type of commercial policies and ESG practices would be positively related. ESG disclosure and related improvements in corporate performance can generate different effects, also financial, not only for employees and shareholders, but also for the supply chain (Hsu et al., 2022). Sometimes, the supply chain is remunerated through bonuses (de Jong and van der Meer, 2017), but this could also occur through facilities in collection and payment terms, an issue that has not been analysed. Improved relationships can lead to financial facilities for suppliers and customers that have generally not been taken into account before.

VI. TAX AVOIDANCE PRACTICES

In the case of tax avoidance practices, the arguments put forward are equivalent to the case of real earnings management and also seek to respond to objectives 1, 2 and 3. In this case, the stakeholder to be considered will be the community, the recipient of the services and benefits derived from taxes.

The usual measure of tax avoidance in the literature is the effective tax rate (ETR) which is calculated by the tax expenditure divided by the pre-tax accounting profit (Rani et al., 2018). ETR can be used as a proxy variable for tax avoidance. Many researchers have claimed that ETR adequately detects tax aggressiveness and is appropriate to be used as a measure of tax avoidance (Hoi et al., 2013; Lanis and Richardson, 2012; Rani et al., 2018). However, there is a limitation of the ETR and that is that it only captures permanent differences arising from tax policies. As a robustness test, the current effective tax rate (CETR) can be used. This CETR refers to the tax payable divided by the pre-tax profit and therefore takes into account both permanent and temporary differences that respond to tax policies and accounting rules (Dyreng et al., 2016; Lanis et al., 2017; Tang, 2019). Tax practices are measured by the degree of deviation of the ETR from the statutory tax rate (STR). The larger the deviation from the STR, the more tax avoidance practices are understood and vice versa (Chen et al., 2010; Tang, 2019; Zeng, 2019). STR is the tax rate (Tax Foundation Global Tax Policy Center).

The relationship between ESG disclosure and tax practices could be studied from two different perspectives. On the one hand, from the stakeholder theory framework, the relationship could be negative, as increased levels of ESG disclosure should reduce the likelihood of engaging in tax avoidance practices (Kim and Im, 2017; Lanis and Richardson, 2015), which are considered unethical. Whereas, from the legitimacy theory, the relationship between temporary tax differences and ESG disclosure would be positive, insofar as tax practices may be the result of accrual earnings management to reduce the amount of taxes payable. In this case, ESG disclosure can be used to try to counteract the possible negative effect of misleading accounting practices (Lanis and Richardson, 2012).

According to the legitimacy theory, a company could consider ESG disclosure as a management strategy (Godfrey et al., 2009; Shafai et al., 2018) to cover up ethical bad practices, tax avoidance practices being among them (Gulzar et al., 2018; Mao, 2019; Zeng, 2019).

As in the case of real earnings management, the possibility is raised that tax practices could be positively related to ESG disclosure, because of the possibility offered

by the State for companies to deduct certain investments and expenses that are part of their ESG policy. Companies can directly address society's requirements through philanthropic activities and other investments that society or stakeholders demand (Arco-Castro et al., 2020). Companies can apply resources to charity, sponsorship or investments that the State contemplates among the objectives, such as those linked to the SDGs, which involve tax deductions and that companies include in their ESG strategy. Along these lines, stakeholder theory suggests that the role of the company in society will not only serve the interests of its business and shareholders, but that it must also think and work for the benefit of stakeholders and society in general, with taxes occupying a central place (Hill and Jones, 1992).

The moderating effect of financial indicators (indebtedness, profitability, market value) on the relationship between ESG disclosure and tax avoidance practices will also be studied.

VII. RELATIONSHIP BETWEEN THE INFORMATION DISCLOSED ON SOCIAL AND ENVIRONMENTAL ASPECTS AND THE COST OF FINANCING

In relation to objective 3, we consider how ESG disclosures, together with the reduction of real earnings management, are positively perceived by stakeholders. The reduction of information asymmetry, the improvement of transparency and the greater reliability of financial information leads to a lower risk perceived by stakeholders. In this case we would focus on investors and lenders. This improved perception is expected to result in lower capital and borrowing costs.

The rest of the thesis is organized as follow:

In chapter 1 we present Corporate social responsibility (CSR) concept evolution, while chapter 2 discusses ESG disclosure. Chapter 3 contains the different types of earnings management and its relationship with ESG disclosure. Chapters 4, 5 and 6 each contain an empirical analysis to achieve the objectives set out in the thesis. For this purpose,

the hypotheses are proposed, the methodology and the model followed are explained, the results and the discussion are presented.

The topic that we explore in chapter 4 is the effect of ESG on real earnings management. The topic that we investigate in chapter 5 is about ESG information disclosure and its relationship to tax practices. In chapter 6 we analyse the effect of ESG disclosure and real earnings management on the cost of financing. Finally, the conclusions, limitations and future lines of research are presented.

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1. Chapter One: Corporate social responsibility (CSR) evolution

As we mentioned in the introduction, in this study, we will utilize ESG disclosure as an indicator of sustainability due to its incorporation within the databases utilized (EIKON). Furthermore, given that ESG reports represent an enhanced way of sustainability reports and are closely linked with corporate social responsibility, it becomes essential to present the historical progression of corporate social responsibility. Accordingly, in this Chapter and in the following two chapters of the literature review will concentrate on the evolution of CSR.

Corporate social responsibility (CSR) is a concept that has evolved over time and across different contexts, reflecting the changing expectations and demands of society on businesses. CSR can be understood as the voluntary actions that businesses take to address the social, environmental, and ethical impacts of their operations, beyond their legal and economic obligations. CSR can also be seen as a strategic approach that businesses adopt to create value for themselves and their stakeholders, by aligning their goals with the broader interests of society. The purpose of this chapter is to trace the historical development of CSR from the 1950s to the 21century, and to examine how the concept was influenced by various social movements, academic theories, and regulatory frameworks. The chapter will also discuss the main challenges and opportunities that CSR faced in each decade, and how it responded to them. By doing so, this chapter aims to provide a comprehensive and critical overview of the origins and evolution of CSR, and to highlight its relevance and implications for the present and future of business and society.

1.1 The history of CSR development

Corporate social responsibility (CSR) has a long history that begins in the 1950s when firms and academic scholars first began examining the connection between business and society (Palihawadana et al., 2016). CSR refers to a company's commitment to improving the community in which it operates. CSR entails upholding a fair and practical societal balance between the business and other stakeholders (Carroll and Shabana, 2010). As management became more professional, companies needed to consider more factors than just profitability, such as their employees' well-being, customers' demands (Abram, 1951). Moreover, in 1953, Bowen (1953) released his ground-breaking book, Social

Responsibility of the Businessman, which had a considerable impact on subsequent thinking on the topic. The benefits of CSR for firms themselves were barely mentioned in the 1950s. The main emphasis was on firms' social responsibilities and doing charitable donations for society (Levitt, 1958).

The CSR literature significantly increased in the 1960s, and it tended to focus on the question of what social responsibility essentially meant and its importance for both business and society. Among the most important social movements of the 1960s were those for civil rights, women's rights, consumer rights, and the environment (Carroll and Shabana, 2010). The key moments, figures, and concepts from these movements helped to define the societal transformations that took place in the 1960s. Business saw expectations in each of these contexts that ultimately needed to be addressed. As a result, the social environment, which was changing swiftly, and pressure from others, particularly activists, to embrace CSR concepts, attitudes, practices, and policies, served as the basis for the development of CSR. In 1960, Davis (1960) claimed that social responsibility refers to businessmen's judgments and activities taken for causes at least slightly beyond the firm's direct economic or technical interest (Davis 1960; Carroll and Shabana, 2010). In addition, social responsibility requires businesses to undertake obligations to society that go beyond their legal and financial obligations (McGuire, 1963), in contrast to the assertion that businesses should use their resources for more general societal goals (Frederick, 1960).

In the 1970s, the term Corporate Social Responsibility was used without restriction, which led to ambiguity regarding its definition. In 1970, Friedman suggested that bending the rules is acceptable and that a company's main social obligation is to maximize profit for its stakeholders (Friedman, 1970). He stated that businesses should focus on making money for their shareholders rather than engaging in activities that take attention away from that goal (Schwartz and Saiia, 2012). By 1979, Carroll (1979) put forth what is considered to be the first comprehensive definition of corporate social responsibility, stating that "the social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time" (Carroll, 1979). Carroll's (1979) definition of social responsibility is relevant because it builds on the work of other scholars (Davis, 1973; Frederick, 1960; Friedman, 1962;

McGuire, 1963; Walton, 1967) to provide a clear and concise conceptualization that can be applied under any context, which was not the case with earlier definitions. Carroll's (1979) definition of CSR makes another important contribution by not viewing the social and economic goals as trade-offs that must be made, but rather as a crucial component of the business framework for total social responsibility (Lee, 2008).

Furthermore, the notion of CSR was affected by social movements and new laws during the 1970s. This was shown in academic articles that offered companies guidance on how to meet the extra requirements imposed on them by legislation that now included employee rights, in addition to environmental protections and product safety (Carroll, 2008). This in turn gave way to the 1980s, at which time the topic of CSR implementation became popular.

The 1980s saw an increase in empirical studies, the emergence and acceptance of diverse themes, but fewer new definitions of the idea. Frederick (2008) referred to the 1980s as the start of the corporate ethics era, during which time the emphasis shifted to promoting moral corporate cultures (Frederick, 2008). Throughout this decade, Freeman (1980) came up with stakeholder approach, which is the attainment of an organization's objectives, which is crucial for a company's sustainability. Management must chart a direction for the company and not only optimize present output, if it is to survive in a volatile environment. Management needs the backing of those who can influence the firm and an understanding of how the firm will affect others in order to successfully shift direction (as in the long run they may make a reactive response). Hence, fulfilling the organization's goals which are ultimately a question of survival requires at least some understanding of stakeholder relationships (Freeman, 1984).

By defining stakeholders as "any group or individual who is influenced by or can affect the achievement of an organization's objectives", the method intended to expand the concept of strategic management beyond its traditional economic bases (Freeman and McVea, 2005).

Also in this era there has been an expansion of research attempting to connect CSR with financial performance (Aupperle et al., 1985; Cochran and Wood, 1984), and the

pursuit of a closer connection with firm financial performance has taken centre stage (Lee, 2008).

During the 1990s, the globalization process increased the operations of multinational corporations, which now faced diverse business environments abroad, some of which had weak regulatory frameworks. These multinational corporations faced new opportunities that came with increased competition for new markets, increased reputational risk as a result of increased global visibility, and competing pressures, demands, and expectations from the home and host countries (Carroll, 2015). Accordingly, many multinational corporations understood that being socially responsible had the potential to be a safe pathway to balance the challenges and opportunities of the globalization process they were experiencing and as a result, the institutionalization of CSR became stronger (Carroll, 2015).The institutionalization of CSR grew stronger as more multinational corporations realized that adopting socially responsible practices could be a secure way for them to balance the risks and rewards of the process of globalization they were going through (Carroll, 2015).

Even as CSR became more institutionalized in the 1990s, the concept itself did not change as much (Carroll, 1999). However, Carroll (1991) presented the "Pyramid of Corporate Social Responsibility" with the intention of offering a useful framework for CSR to executives who needed to strike a balance between their duties to shareholders and those to a larger group of stakeholders.

Carroll (1991) represented what he identified as the four primary responsibilities of any business with the Pyramid of CSR: the first one is the economic responsibilities, which serve as the foundation for the other levels of the pyramid; the second one is the legal responsibilities of the company; in addition to the ethical responsibilities, which guide the company's behaviour beyond the requirements of adhering to the law; and the last one is the philanthropic responsibilities of the corporation with regard to its contribution to enhancing the quality of life.

In addition, Burke and Logsdon (1996), who sought to link CSR to improved financial performance of the company and were perhaps the first to assess the advantages of CSR's strategic application, made another significant contribution to the concept in the

1990s. They believe that CSR may be used strategically to complement core business operations and, as a result, increase a company's efficacy in accomplishing its primary goals (Burke and Logsdon 1996). Furthermore, some personal characteristics such as age, gender, ethnicity, education, religion, or personality are cited as fundamental factors in this regard (Arlow 1991; Ford and Richardson 1994; Kennedy and Lawton 1998; Quinn 1997; Trevino 1992).

In 1994 the idea of The Triple Bottom Line, proposed by Elkington, as a sustainability framework that balances a company's social, environmental, and economic effect, was another significant contribution to the discussion of corporate conduct. The idea of triple bottom line clarified that strong, long-term relationships between the public and commercial sectors as well as among stakeholders are necessary to achieve an outstanding triple bottom line performance (social, environmental, and economic). This idea first gained traction in the late 1990s as a realistic approach to sustainability, and it has continued to be discussed in relation to corporate social responsibility because it suggests that businesses must engage in socially and environmentally responsible behaviour that is consistent with their business objectives (Gonzalez-Rodriguez, 2015). Though, there was no universally recognized definition of CSR by the end of the 1990s (Lantos, 2001), even though there was a social and institutional drive to have businesses behave responsibly (Carroll,1998).

The Enron scandals took over the early 2000s, dominating the news until 2008, when the Wall Street Financial Scandals started causing devastation around the world (Carroll, 2004). The accounting scandals have concentrated on disclosure. Both Enron and WorldCom exposed accounting strategies that successfully accelerated or manufactured revenues when the underlying reality represented expenses. WorldCom used bank loans similarly to how Enron used special purpose firms to make deals (Fusaro and Miller, 2002). As a result, the share prices of these companies' stocks increased. These initiatives had the economic impact of transferring money from shareholders who held shares after the bubble burst and values dropped to those shareholders who sold their shares early (Dnes, 2005).

Concerns raised by these scandals have resulted in legal changes to corporate governance in America and changes to voluntary, self-regulatory codes in Europe. The

reliability of financial reporting systems and the giving of fair image of the corporation's operations have received a lot of attention (Kim, 2011). Particularly in 2002, when American legislative response to Enron by issuing the Sarbanes-Oxley Act of 2002, which seeks to generally increase the incentive for company disclosure of correct financial information. The Act mandates auditors to issue a report attesting to a needed written internal control evaluation made by management for including in the annual report, which will be expensive for businesses. The security exchange commission (SEC) has tightened the present obligation to rotate outside auditors from every seven to five years. Furthermore, audit firms are prohibited from performing audit services for a period of one year if any of the chief executive officer, chief financial officer, controller, or chief accounting officer of the audited company participates in any capacity in the company's audit while employed by the audit firm (Dnes, 2005; Kim, 2011).

Based on the abovementioned discussion, after several recent financial scandals, there has been an international trend toward developing and implementing corporate governance mechanisms to fight against the opportunistic behaviours that have undermined investors' credibility in financial information (Gras-Gil et al., 2016). Corporate governance attributes to help investors by aligning the interests of managers with the interests of shareholders and by enhancing the reliability of financial information and the integrity of the financial reporting process (Watts and Zimmerman, 1986).

At the beginning of 21st century, corporate policies changed in response to public interest, and as a result, this frequently had a positive social impact (Smith, 2001). As a result, a new definition of CSR was developed: "Corporate social responsibility refers to the obligations of the firm to its stakeholders, or the people impacted by corporate policies and practices". These responsibilities go above and beyond what is required by law and what the company owes its shareholders. The goal of fulfilling these commitments is to limit any negative effects and increase the firm's long-term positive effects on society (Smith, 2001).

In 2005, Werther and Chandler (2005) investigated the application of strategic CSR as part of brand management in order to acquire and sustain legitimacy in a context of multinational brands. The emphasis on the transformation of social responsibility by

turning CSR from being a basic commitment to becoming a strategic need is what makes their work relevant today (Werther and Chandler, 2005). In 2006, Porter and Kramer (2006) expanded on the idea that businesses might acquire an advantage through CSR and described how corporations can address their competitive situation by taking a strategic approach that will enable them to create shared value in terms of advantages for society while enhancing their own competitiveness (Chandler and Werther, 2013; Trapp, 2012).

The Sustainable Development Goals (SDGs) and the Paris Agreement, adopted in 2015, which were signed in the decade of the 2010s, represented a new social contract in which businesses are expected to contribute significantly to efforts made on a worldwide scale to realize the SDGs (Latapí Agudelo et al., 2019). Since the Paris Agreement, the announcement of the 2030 Agenda for Sustainable Development, and the approval of the seventeen Sustainable Development Goals (SDGs), which constitute a common vision of humanity and a social compact between the world's leaders and the people, will all occur in the 15 years that will follow 2015, it may be said that it is the most significant year of the decade (Ban, 2015). Since that time, the literature on CSR has concentrated on how it is implemented and how it affects particular performance areas, some of which can be somewhat connected to the SDGs, while the focus on how CSR can create shared value has remained constant (Brogi and Lagasio, 2019; Shnayder and Van Rijnsoever, 2018; Taliento et al., 2019). CSR usually is identified with ESG policies, and this term is commonly used.

Based on the previous literature the three main dimensions of corporate social responsibility (the environmental, social, and economic dimensions) are what the majority of authors have adopted as the content of current definitions of ESG (Chowdhury et al. 2019; Gonzalez-Rodrguez et al., 2015; Mari-Farinós 2017; Nikolau et al., 2013; Uribe-Macías et al. 2018).

Economic dimension

The economic aspect of corporate social responsibility is how the influence on the company's finances is achieved. Companies are aware that in order to survive in the current market, they must sacrifice short-term profits in favour of long-term benefits that would

satisfy the owners and management rather than continuing to operate as they did in the past to maximize profits (Carroll, 1991; Friedman, 1962; Friedman 1970). A corporation must fulfil its economic obligations in relation to paying back investors' money, achieving market leadership, maximizing profits, ensuring customer satisfaction and loyalty, paying employees fairly, providing customers with fair prices for goods, and promoting goods and services through advertising campaigns (Gonzalez-Rodriguez, 2015). Economic value assumes the company's responsibility to work toward long-term sustainability, to effectively address business risks, and to establish the required security for its owners, investors, and employees, as well as for society at large.

Social dimension

The social dimension of ESG is critical in establishing relations between businesses and society. Being socially responsible involves taking responsibility for any indirect social impacts your business may have on others. The fundamental goals of social dimension are employees' policies and the measures that businesses should apply to improve society as a whole, include social issues into their daily operations, and take into account all of their effects on local communities (Nasrullah and Rahim, 2014). In this thesis we focus in the second agent: society at large. As a social actor and member of the human community, a firm should focus on advancing the interests of both its internal and external human communities (Szczuka, 2015). In order to ensure the success of their social lives, it should recognize and appropriately address their needs, expectations, rights, and demands. Companies should try to use their business to improve society while dealing with the social aspect. This can entail purchasing fair trade goods or committing to paying their staff a living wage, for instance. It might also entail engaging in activities that advance society, including using their wealth to plan philanthropic fundraising (Sharma and Gupta, 2003; Jamali, 2008; Shnayder and Van Rijnsoever 2018).

Environmental dimension

Companies have started thinking about their influence on the environment and the benefits and drawbacks of their operations because of external pressures as a result of the perception that businesses are a major contributor to social, environmental, and economic problems. In addition to preventing pollution, companies must consider waste management, labour efficiency, energy savings, and improvements in worker productivity. The institutional, legal, and administrative requirements established by governments are what determine how the environmental dimension of ESG is implemented. The interests of various groups varies significantly when it comes to environmental ESG. Companies themselves have incentives to implement environmental protection practices. Companies are trying to get the public's trust and the support of society, but they will not be able to accomplish these goals alone by adhering to the law and preventing accidents. Instead, they should take a more proactive strategy. (Lu et al.m 2019; Marí-Farinós, 2017; Taliento et al. 2019).

1.2 CSR Perspectives

A company's CSR implementation strategy will also depend on how effectively it comprehends how it should be carried out. Similar to how CSR is described, CSR implementation makes use of a variety of concepts and techniques. The many CSR ideas could be divided into four groups for clearer understanding: instrumental theories, political theories, integrative theories, and ethical theories (Garriga and Melé, 2004). These perspectives contend that how the relationship between corporation and society is perceived affects how CSR is viewed. Different CSR strategies may be the outcome of different perspectives.

1.2.1 Ethical perspectives

These ideas are focused on the moral obligations that companies have to society. They are founded on ideas that represent what is morally correct or what is required to create a decent society. The following are the main methods (Garriga and Melé, 2004):

- *Normative stakeholder perspective*

Which takes into account fiduciary obligations to all of the firm's stakeholders, including its customers, suppliers, workers, investors, and the local community. According to this view, a socially responsible corporation must simultaneously balance a variety of interests, not only the interests of the firm's owners, but also pay attention to the legitimate interests of all relevant stakeholders. Normative stakeholder perspective proponents have made an effort to defend it using justifications drawn from Kantian capitalism (Bowie, 1991; Evan and Freeman, 1988), contemporary theories of property and distributive justice (Donaldson and Preston, 1995), as well as Libertarian theories with their concepts of freedom, rights, and consent (Freeman and Philips, 2002).

- *The common good perspective*

According to this strategy, company must contribute to the common good because it is a component of society, similar to any other social group or individual. It has been argued that company is a bridging institution in this regard (Smith, 1999). Companies should only contribute positively to society's well-being and should not be damaging to or a parasite on it. Companies contribute to the common good in a variety of ways, including generating income, offering goods and services in a fair and efficient manner, and safeguarding the fundamental rights of people. Additionally, it promotes social harmony and a means of coexisting in a fair, peaceful, and pleasant manner. both in the present and in the future (Mele´, 2002).

1.2.2 Instrumental approach

Theories that use the corporation only as a tool for generating money and its social initiatives as a means of achieving economic objectives are known as instrumental theories. The only social obligation of company is to increase profit (Friedman, 1970). As long as there is open and free competition, firms in a free society simply have one duty: to raise their profits.

However, profiteering does not preclude considering the interests of all stakeholders in the company (stakeholders). It has been suggested that, under certain conditions, satisfying these interests can help to maximize shareholder value (Mitchell et

al., 1997; McWilliams and Siegel, 2001). For the sake of profit, a reasonable amount of investment in philanthropy and social initiatives is also acceptable (McWilliams and Siegel, 2001).

The philosophy of these perspectives include:

- The maximization of shareholder profit

A well-known strategy is to evaluate specific corporate social activities based on its direct contribution to enhancing shareholder profit. Any investment in social needs that increases shareholder value should be conducted without deception or fraud. On the other hand, if a societal demand just adds costs to the company, it should be rejected. At the moment, this strategy frequently regards shareholder value maximization as the standard for guiding corporate decisions (Jensen and Meckling, 1976). However, today it is widely acknowledged that maximizing shareholder wealth is not incompatible with addressing some of the demands of stakeholders in the company (stakeholders). In this regard, Jensen (2000) has put out a concept he refers to as "enlightened value maximization". According to this idea, the firm's goal should be to maximize long-term value. Simultaneously, this goal is used as a criterion for determining the appropriate decisions among its stakeholders.

- Cause-related marketing

Its purpose is thus to increase firm revenues and sales or customer relationships by acquiring and associating with the ethical or social responsibility dimension (Varadarajan and Menon, 1988). In a sense, it promotes product differentiation through the development of socially responsible characteristics that affect firm reputation (Smith and Higgins, 2000).

1.2.3 Integrative perspectives

This group of perspectives examines how company incorporate social demands, arguing that company is dependent on society for its survival, continuity, and growth. Social demands are generally regarded as the means by which society interacts with corporation, endowing it with legitimacy and prestige. As a result, corporate management should consider social demands and integrate them, so that the firms operate in accordance with social values. As a result, the scope of corporate responsibility is limited to the space

and time of each situation, depending on societal values at the time, and is expressed through the company's functional roles (Preston and Post, 1975). This collection of perspectives includes:

1. Problems management, that is the process through which a company recognizes, assesses, and reacts to social and political issues that might have a substantial influence on business. It places a focus on how a firm responds to social challenges via its decision-making process. The process through which a company recognizes and addresses societal concerns that might have a substantial influence on business is known as issue management. Through early detection of the hazards and possibilities, it might assist the company in adapting to societal changes.

2. The idea of "public responsibility," whose proponents believe that acceptable management conduct may be discovered in the context of relevant public policy, which includes developing concerns, formal legal requirements, and enforcement or implementation procedures (Preston and Post, 1981). A corporation's main engagement and secondary involvement are used to examine the breadth of its obligation. The corporation's primary role is in its financial management, which includes setting up facilities, finding suppliers, and doing producing-related tasks (Preston and Post, 1981). The result of main participation is secondary involvement (Vogel, 1986). For instance, choosing and motivating personnel is a key engagement.

3. Stakeholder management, that is a strategy focused on individuals who have an impact on or are impacted by corporate policies and procedures. Its benefits include the company's heightened environmental sensitivity and stakeholders' improved comprehension of the organization's challenges (Freeman, 1978). Making an effort to address problems impacting several stakeholders at once is the most effective method of managing stakeholders. The main objective of this strategy is to achieve the highest level of stakeholder group and corporate collaboration (Mitchell, 1997). Stakeholder management refers to the inclusion of organizations' stakeholders in decision-making processes (Garriga and Melé, 2004).

1.2.4 Political perspectives

A group of CSR strategies and theories which concentrate on interactions and between companies and society and on the power and influence of company and its implicit responsibility. In the CSR debate, they include both political considerations and political analysis. Although there are numerous approaches, two major perspectives distinguished: Corporate Constitutionalism and Corporate Citizenship.

- Corporate constitutionalism, which is based on the notion that company is a social institution and must exercise power responsibly. Firms are subject to "the social power equation" (Davis, 1960). The social responsibilities of companies' owners arise from the amount of social power that they have and the law of responsibility which states that whoever does not use his social power responsibly will lose it.
- Corporate citizenship is a term that has been revived and has three distinct meanings: a limited view that includes corporate philanthropy, social investment, and certain acknowledged responsibilities to the local community (Matten et al., 2003) a view similar to CSR; and an extended view that sees corporations entering the citizenship space at the point where governments fail to protect citizens, even in a global context (Matten et al., 2003). Most authors generally agree on certain points, such as a strong sense of company responsibility towards the local community and partnerships, which are the particular ways of formalizing the intention to improve the local community (Logsdon and wood, 2002).

1.3 CSR theoretical framework

Theoretical framework about corporate social responsibility can be divided into two approaches:

One approach suggests Corporate Social Responsibility (CSR) initiatives can be seen as a manifestation of a moral hazard issue that exists within a firm. This issue arises when managers prioritize their personal objectives of enhancing their visibility and reputation, which may come at the cost of the shareholders' interests. In this sense companies can use CSR disclosure in an opportunistic way. It appears that there are three

theories that hold a similar viewpoint, agency theory, legitimacy theory and stewardship theory (Zerbini, 2017).

The second approach to evaluate corporate social responsibility (CSR) efforts adopts a more liberal stance with regards to the potential trade-off that may exist between the performance of firms and the welfare of society, which means considering the interests of all stakeholders. Stakeholder theory, Stakeholder agency theory, and Signalling theory are all well-known examples of this method's theoretical underpinnings (Zerbini, 2017).

After mentioning the popular theories used in the literature about CSR, we are going to explain stakeholders, agency, stakeholders-agency, and legitimacy theories, which we have used in this research to explain the CSR and accounting manipulation as they are more related to the hypothesis and topic of our research. In this section, the most widespread theoretical frameworks under which social responsibility has been studied will be presented and explained.

1.3.1 Stakeholder theory

The stakeholder theory provides a theoretical framework for examining the social and ethical responsibilities of organizations to the many groups of people that have an interest or are affected by the actions of the company. Shareholders, vendors, local communities, communities at large, employees, and customers are all examples of stakeholders (Harrison et al., 2015). According to the stakeholder theory, different types of stakeholders each have valid claims on companies based on the value they contribute (Hills and Jones, 1992). According to the stakeholder theory, companies should make an effort to accommodate the needs and priorities of their various stakeholders whenever it is practical to do so. This indicates that companies should not only look out for their own best interests, but also the interests of their stakeholders, which include their employees, their customers, and society in general (Jones et al., 2017). Stakeholder theory is an approach to business decision-making that, rather than merely concentrating on increasing the value of a company's shares to shareholders, seeks to provide a strategy that is more comprehensive and inclusive, and which takes into account the needs and interests of all stakeholders. It is based on the idea that companies have a responsibility toward the community, and that they

should consider how their activities will have an impact on all the relevant stakeholders before taking any action (Freeman et al., 2021).

There is a connection between stakeholder theory and corporate social responsibility; both endeavours to maximize the potential of all individuals and are inextricably intertwined. That is to say, the goal of the theory is to strike a healthy balance between doing what is right and making profits for the sake of the benefit of enterprises. To put it another way, companies need to be managed such that they benefit all the stakeholders, and directors need to be held accountable to those stakeholders. As a direct consequence of this concept, the theory can be interpreted in two unique ways: first, businesses are unable to use stakeholders for their own long-term benefit; and instead, the primary objective of organizations should be to generate profits for all their stakeholders. Second, as directors serve as mediators, they are accountable to all the relevant parties and are required to find a common ground between the various parties' competing interests. In other words, directors ought to be diligent and devoted to stakeholders, informing them about everything that they've done and including them in the operations of the firm (Susnien, and Sargnas, 2011).

When corporate social responsibility (CSR) is aligned with stakeholder theory, executives adopt a more measured approach. This involves taking into consideration the interests of all the organization's stakeholders and planning their action steps. As a result, the various challenges that are inherent in putting such initiatives into action are mitigated. The problem of inadequate corporate social responsibility awareness is addressed by stakeholder theory (Harrison, et al. 2019). When stakeholder theory is aligned with corporate social responsibility, it maximizes rewards in terms of societal advancement, employee motivation, firm reputation, revenue, profitability, motivated customers, and other related metrics (Nikolova and Arsi, 2017). As a result, corporate social responsibility is a crucial component of the responsibilities that firms owe to their stakeholders.

Accordingly, businesses are obligated to offer something of value to all the relevant stakeholders in their communities, in accordance with the stakeholder theory. Through these means, the company's mission is realized. When a corporation realizes that corporate social responsibility is about providing value for customers, employees, financiers, and

suppliers, the temptation to use CSR as a cover for misconduct with other stakeholders is reduced. It is essential to produce value for other stakeholders, but it is also essential to perform meaningful work in corporate social responsibility (CSR). This is in accordance with the distinction that Freeman et al. (2010) made between residual and integrated approaches to CSR. According to this author, the latter includes giving back to the community only after profits have been realized, whereas the former requires combining economic with social, environmental, and ethical decision-making criteria (Freeman et al, 2010).

The concept of stakeholders holds a significant amount of weight in the field of accounting. According to the stakeholder theory, accounting should not simply concentrate on financial performance and shareholder value; rather, it should take into account how various business actions will impact all of the many stakeholders (Fernando and Lawrence, 2014). This indicates that accounting methods should be open and accountable, should be fair, and should take into consideration the interests and requirements of all stakeholders (Horisch et al., 2020). For instance, accounting procedures that primarily concentrate on enhancing the value of the company's stock to shareholders may not always be acting in the best interest of other stakeholders, such as the company's employees or the communities in which it operates. According to the stakeholder theory, for accounting methods to be socially responsible and ethically defensible, they should take into account the concerns and requirements of all relevant stakeholders (Fernando, S., and Lawrence, 2014). In practice, the stakeholder theory can be implemented into accounting by taking into account the impact that business decisions have on all stakeholders and by reporting on the performance of the organization in a manner that is both transparent and accountable to all of the organization's stakeholders. This can help to develop trust and credibility among stakeholders, which in turn can contribute to the success of an organization over the long run (Harrison et al. 2019, Mitchell et al., 2015).

It's possible that certain firms' accounting policies and management practices and procedures do not always align with the principles of stakeholder theory. Accordingly, accounting methods or management practices may be manipulated by businesses in certain circumstances to present stakeholders with a more favourable financial picture, even if this is not an accurate portrayal of the organization's true financial performance. This may occur

when organizations want to appear more profitable to their stakeholders (Mohamed and Handley-Schachler, 2015). Financial statements can be manipulated by some businesses through a practice known as creative accounting, which involves the use of methods that deviate from accounting principles or earnings management practices that try to reach better solvency image. Financial statements can be manipulated through creative accounting to conceal or overstate an organization's true financial performance (Bhasin, 2016). Organizations also can manipulate their accounting processes by engaging in fraudulent acts, such as exaggerating their financial statements or keeping crucial information from their stakeholders. This is another method of accounting manipulation (Mohamed and Handley-Schachler, 2015). This kind of manipulation in the accounting system is against the law and can have severe repercussions for the company and the people who have an interest in it.

Before settling on any decisions concerning the enterprises, the stakeholders are required to take into account the capability of the enterprise, as well as its financial sufficiency, and they should also anticipate the potential development or risk of the enterprise (DesJardine et al., 2023). This is the reason why businesses use a wide variety of performance indicators. A system has been presented for estimating the level of corporate social responsibility, and within its economic-financial group, estimations of the enterprise's profitability, liquidity, and debt ratios can be found (Slapikait, 2016). It is important to note, however, that when an enterprise utilizes creative accounting, the financial statements contain information that could not be reliable for user. As a result of the fact that each of the aforementioned indicators is computed by retrieving numbers from the information contained in the financial statements, the calculations will not be reliable and will also be misleading (Vasile et al., 2014).

In general, altering the information in an accounting system has considerable ethical ramifications since it can impair the organization's credibility and trustworthiness in the eyes of its stakeholders. Through this management practices, corporations may be giving their own interests higher priority than the interests of their stakeholders, which is in direct contrast to the principles that underpin stakeholder theory. In order for organizations to demonstrate social responsibility and ethical justification, they should adhere to accounting processes that are both transparent and accountable, and they should

take into account the interests and needs of all stakeholders (Mohamed and Handley-Schachler, 2015; Harrison et al. 2019).

Stakeholder management is a successful approach for managing companies since it is connected to higher levels of accountability and improved earning quality (Mattingly et al., 2009). According to the findings of these researchers, businesses that practiced effective stakeholder management made more prudent accounting decisions and transparently disclosed their financial information, satisfying the needs of a larger spectrum of stakeholders (Mattingly et al. 2009). Also, it has been demonstrated that more conservative accounting procedures tend to be chosen when suppliers or customers hold the bargaining power (Hui et al., 2012). Such stakeholders have a lot to lose if a business fails, but they do not benefit much from strong corporate performance.

Stakeholder management also provides persuasive explanation for managerial motivations to deal with stakeholder pressure, eliminate information asymmetry, reduce transaction costs, diminish unpleasant scrutiny from stakeholders, and legitimize actions following reputation breaches (Harrison et al. 2019). Organizations that adopt a strategic stakeholder orientation are more accountable, have better quality earnings, are more likely to voluntarily disclose material information, and use more conservative accounting methods. The increased revenue predictability and reliability have clear societal advantages for all stakeholders involved (Cottrell et al., 2015, Harrison et al. 2019; Hörisch et al.2020)

1.3.2 Agency theory

Agency theory in accounting refers to the relationship between two parties, known as the principal and the agent, where the principal delegates tasks or authority to the agent to act on their behalf (Berle, 1932; Panda and Leepsa, 2017). In the context of accounting, the principal is typically the owner or shareholder of a business, and the agent is typically the management team responsible for running the business (Bricket and Chandar, 1998). The agency theory suggests that there may be conflicts of interest between the principal and the agent, as the interests of the two parties may not always align. For example, the management team may prioritize their own interests, such as their salaries or bonuses, over the interests of the shareholders. This can lead to a situation known as agency costs, which

are the costs incurred as a result of the conflicts of interest between the principal and the agent (Copeland et al., 2005; Panda and Leepsa, 2017). The agency theory perspective holds that contemporary corporations face agency problems due to the asymmetry of information between a principal (the shareholders) and an agent (the managers) in the decision-making process, which could result in an incomplete contract due to random disruptions on the outcome of their decisions and ineffectual behaviour on the part of all parties in satisfying their own interests (Holmstrom and Tirole 1989; Schroeck, 2002). In addition, the incomplete contracting with the organization due to the agency problem can cause goal conflict, higher outcomes uncertainty, and diminished outcomes measurability when there is information asymmetry. As a result, decision-makers must take into account all relevant factors to resolve and reduce agency concerns and achieve full contracting between shareholders and managers (Eisenhardt, 1989).

CSR refers to the ethical and social responsibilities that businesses have to their stakeholders, including employees, customers, shareholders, and the environment. CSR disclosure is the process by which businesses communicate their CSR activities and performance to stakeholders, typically through annual reports or other forms of public disclosure (Hummel et al., 2020). Agency theory can be applied to the concept of CSR disclosure in several ways. First, there is the potential for conflicts of interest between the management team (the agent) and the shareholders (the principal) when it comes to CSR activities. While shareholders may be interested in the long-term sustainability and reputation of the company, management may prioritize their own short-term interests, such as increasing profits or executive bonuses. This can lead to a situation in which management may be tempted to manipulate CSR disclosures to present the company in a more favourable light, even if it is not accurately reflecting the company's actual CSR performance (Weshah et al., 2017).

To mitigate this potential conflict of interest, companies need to have strong internal controls in place to ensure the accuracy and transparency of their CSR disclosures. This may include the use of independent third-party verification, as well as the involvement of the board of directors or other oversight bodies in the process of preparing and reviewing CSR disclosures (Weshah et al, 2017). Additionally, the use of performance-based incentives can help align the interests of management with those of shareholders when it

comes to CSR activities. For example, executive compensation may be tied to the company's CSR performance, incentivizing management to prioritize sustainability and ethical practices (Derchi et al., 2021). Overall, the agency theory highlights the importance of ensuring that the interests of the principal (the shareholders) and the agent (the management team) are aligned when it comes to CSR disclosure and accounting practices. By implementing strong internal controls and performance-based incentives, companies can help ensure that their CSR disclosures accurately reflect their actual performance and that their accounting practices are transparent and trustworthy (Weshah et al, 2017).

From an accounting viewpoint, the signalling mechanism is the primary means of informing stakeholders about an organization's financial health and performance. A reliable accounting information system accomplishes this by generating financial accounting reports that describe the outcomes of management's previous actions as a crucial foundation for estimating future performance, which shareholders may use to inform their investment decisions (Brown et al., 2011). Agency theory also contends that accounting reports play a crucial role in helping to monitor and regulate managers' actions since they provide observable and verifiable information about the managers' performance; thus, the incentive contract needs to be linked with the accounting information (Scott, 2015). Agency and information asymmetry issues are mitigated when management and shareholders have access to the same information regarding the company's financial position and performance (Scott, 2015).

Although accounting manipulation may occur in the form of financial statement fraud in this thesis we only consider some earnings management practices that try to obtain better results in the short term through accrual practices management (Rezaee, 2002; Spathis et al., 2002). The most common types of financial statement smoothing are incorrect revenue recognition and profit inflation, and others (Telberg, 2004) or the delay in the recognition of expenditure. Moreover, managers of publicly traded corporations have been found guilty of financial statement manipulation in order to inflate the company's earnings and so enhance the share price and interest from potential investors (Kellogg, 1991). In this regard, financial statements that give a true and fair assessment of the company's financial condition and operations must be issued to the company's existing shareholders in order to fulfil the directors' and managers' fiduciary duties under agency

theory. As a result of the board of directors' duty to monitor and report on financial accounting systems and the associated danger of unethical activity, shareholders incur an agency cost. In this regard, creating inaccurate financial statements to cover up a poor, negligent, or dishonest performance that has already occurred is one type of misleading performed by agents. The financial accounts could be misstated in different ways depending on the pressure or motive (Mohamed and Handley-Schachler, 2015).

1.3.3 Stakeholder-Agency theory

The concepts of agency theory and stakeholder theory are brought together in a single framework called stakeholder-agency theory. The central tenet of the stakeholder theory is that the continued existence of an organization and the degree to which it is successful is directly proportional to its capacity to produce benefits and favourable outcomes for a variety of stakeholders, including the organization's clients and employees (Freeman, 2010). Agency theory, on the other hand, is more particularly focused on how agreements between the shareholders of an organization (the principal) and the management (the agents), in which the management is accountable for acting on behalf of the principal, are carried out (principal–agent relationships). Agency theory has been criticized because it fails to take into account the interests of parties in a firm other than the principal and the agent (Hill and Jones, 1992). As a result, the stakeholder-agency theory was established with the purpose of better comprehending the character and implications of the implicit and explicit contractual relationships that exist between a company's diverse stakeholders (Hill and Jones,1992).

The suggested theory by Hill and Jones (1992) seeks to shed light on not only the strategic business actions and the interactions between management and stakeholders that give rise to these contracts but also the evolutionary process that has created these contracts and the institutional frameworks that impose them. The separation of ownership and control may be seen as an agency cost if managers use their positions of authority to advance their own personal interests (Davidson et al., 2004). An example of this type of agency cost would be any action done by management as a result of a conflict with the shareholders that promotes the interests of management at the expense of the interests of

the shareholders. When managers are given discretionary authority, the traditional view of agency maintains that they have the right to act in a way that is beneficial to them during the decision-making process. This right allows managers to prioritize their own needs (Berle and Means, 1932).

According to the stakeholder-agency theory, the well-being of a company's stakeholders including shareholders, the local community and so on will take precedence over the welfare of the company's leaders. Since stakeholders can steer and influence the firm's financial resources, businesses place a high value on maintaining positive relationships with them. For instance, if the management of the company are unable to match the expectations of the company's stakeholders, the company may be subject to unfavourable reactions from those stakeholders, such as a decrease in the company's financial resources and attention in the media. As a result, stakeholder-agency theory is an adaptation of agency theory that takes into account theories of power that are owned by stakeholders. Following the paradigm of stakeholder-agency, managers serve a dual role as agents for both shareholders and stakeholders (Hill and Jones, 1992; Prioret al., 2008). Therefore, any decisions taken at the discretion of the managers will affect all of the different stakeholder groups.

Since Hill and Jones (1992) developed the stakeholder-agency approach on agency theory and stakeholder theory, it is apparent that the behavioural premises derived from pure agency theory and pure stakeholder theory need to be modified in the context of stakeholder-agency theory. Stakeholder-agency theory, which takes into account both implicit and explicit contractual ties between all stakeholders, is a fundamental paradigm in this case (Hill and Jones 1992). Stakeholder theory, developed by Freeman (1984), holds that these contracts provide legitimate stakeholder claims against the enterprise as a representation of the many exchange relationships between stakeholders and the enterprise (Freeman, 1984). Each stakeholder group has the right to have its demands satisfied because it contributes to the company's success in a significant way (March and Simon, 1958). Thus, the corporation's objective is to meet the expectations of all its many stakeholder groups.

When investigating the role and actions of managerial decision-makers in this system, two aspects must be considered. As a first stage, managers must settle competing claims and interests among numerous stakeholders to develop a mutually advantageous solution for the organization as a whole (Hill and Jones, 1992). Due to their unique position as the only stakeholders able to enter into contractual relationships with each other and to exercise direct control over the corporation's decision-making apparatus, managers can be considered as agents of all other stakeholders (Jones, 1995; Rowley, 1997; Hill and Jones, 1992). The second belief is that managers place a high value on business growth since it is believed to boost the managers' utility (i.e., salary, authority, tenure, and status within the company) (Hill and Jones, 1992). When managers put their own interests ahead of those of other stakeholders, such as shareholders, employees, consumers, and suppliers, it is evident that they are being opportunistic. This is due to the fact that all of these constituencies have needs that aren't always aligned with one another, such as shareholders who want a return on investment, employees who want higher pay, customers who want lower prices, and suppliers who want more regular ordering patterns (Jones 1995; Jones et al. 2007).

Managers may give more attention to the demands of some stakeholders than to those of others, but in the long run, everyone loses if the interests of less apparent groups are ignored. Managers' perspectives, environmental scans, and priorities all play critical roles in identifying which links in this web of interconnections require their attention (Mitchell et al. 1997; Post et al. 2002). The reduction in stakeholder well-being that results when managers prioritize their own interests over those of their constituents called a utility loss (Hill and Jones 1992). Consequently, when interests are not aligned, utility is diminished.

In summary, the goal of stakeholder-agency theory is to maximize the value of a company by balancing the interests of its numerous stakeholders.

1.3.4 Legitimacy theory

Legitimacy theory is a sociological perspective that describes how organizations aim to maintain or improve their perceived right to exist and operate from the view of its stakeholder (Olateju., et al 2021). Legitimacy can be based on various factors, including

social values, legal norms, and economic performance. Legitimacy is a gauge of how society feels about a company and its operations (Suchman, 1995). The norms and behaviours upheld by a given society are the basis for any claims to legitimacy (Suchman, 1995). This aspect has been emphasized by defining legitimacy as the state of having a set of beliefs and practices that are in line with those of the majority in a given community (Lindblom,1994). Also, it has been claimed that legitimacy entails a process of "justification," in which an organization tries to convince its peers or superior systems that it deserves to exist (Maurer, 1971). Furthermore, it has been established that a corporation is legitimate when it is regarded to be fair and worthy of support by society (Dowling and Pfefffer, 1975). This viewpoint is similar to that of another study that highlighted that legitimacy is not an objective indicator of a company's "rightness," but rather a reflection of how the public views the appropriateness of its action (Suchman, 1995).

According to the legitimacy theory, if key evaluators do not believe in an organization's legitimacy, it will not be able to function as its leaders would like it to, or at the very least, survive (Dowling, and Pfeffer, 1975). The capacity of a firm to remain operational in the eyes of the public depends on their level of legitimacy (Searcy and Buslovich, 2014). Legitimacy theory can be used to help explain why organizations embrace and enhance voluntary social and environmental disclosure of information to satisfy their social contract, which in turn helps them get their objectives recognized and remain afloat in an unpredictable environment. In addition, how the public views the organization's actions are reported in a way that is consistent with social norms. Hence, when a company's actions violate people's sense of right and wrong, society punishes it harshly. Accordingly, stakeholders' attempts to exert influence on an organization often revolve around challenging its legitimacy (Searcy and Buslovich, 2014). Legitimacy theories suggest that managers can employ a variety of techniques to counteract challenges to their organization's legitimacy. Responses can range from conceding that the criticism is valid and agreeing to adapt to expectations to arguing that the criticism is unfounded. Managers might try to defuse criticism within these two frameworks by prompting a revaluation of their behaviour or a shift in social standards of what is considered good conduct (Holland et al., 2016).

Legitimacy theory is predicated on the concept of a social contract between an organization and the community in which it operates (Deegan, 2014). The social contract encompasses the different expectations that society has for how a company should operate (Deegan, 2014; Mathew, 1993). Given that it may be explicit or implicit and transient, the social contract is difficult to define. As a result, it is impossible to rigorously establish the ideas, and different managers will have varied perspectives on these diverse terms (Deegan, 2014; O'Donovan, 2002). Legal mandates lay out the stipulations of the agreement, whereas non-legislated social standards communicate the underlying understanding of the partnership (Gray et al.,1996). There may be significant disagreements amongst managers regarding the contract's implied provisions (Deegan, 2014). In addition, public expectations change over time, therefore the terms of the social contract that guarantee society's approval also evolve with time. Thus, it is essential for businesses to be flexible in order to thrive in their respective environments (Deegan, 2014). And as community expectations change with time; thus, transparency is required to indicate the organization is adapting. Businesses must examine the corrective actions they might take in response to perceived social contract breaches in order to ensure their continued existence. The concepts of legitimacy gap and legitimacy tactics from legitimacy theory are deployed to this end.

The legitimacy gap is the difference between what the relevant public expects from an organization and what that organization actually does (Lindblom, 1994), when there is a discrepancy between the two value systems or when there is evidence of a legitimacy gap, and as an organization's credibility is valuable (Dowling and Pfeffer, 1975), then the legitimacy of the entity in question is called into question (Lindblom, 1994). When managers determine that a resource's availability is crucial to the company's existence, they often implement tactics to assure that resource's steady supply (Deegan, 2014). This conforms to the theory of resource dependence (Pfeffer and Salancik, 1978). Some examples of such tactics include selectively sharing information or working with seemingly legitimate third parties (Deegan, 2002; Fiedler and Deegan, 2002).

According to legitimacy theory, businesses might become legitimate when its leaders realize their actions are not in line with the "social contract" (Dowling and Pfeffer, 1975). The theory's reliance on public sentiment means that corrective actions without

public disclosure are ineffective (Cormier and Gordon, 2001). Hence, firms must make their disclosures public through easily accessible records such as annual reports (Deegan 2002; Deegan et al 2000; Cormier and Gordon, 2001). Several studies have looked into legitimacy theory and its bearing on companies CSR disclosure procedures (Campbell et al., 2003; Deegan et al., 2000). These studies conclusions generally validate the usefulness of legitimacy theory in addressing CSR disclosure procedures. Moreover, some studies have found that the type of industry a corporation operates in is a determining factor in CSR disclosure. Previous studies have shown that the amount of voluntary disclosure differs from industry to industry (Bozzolan et al., 2003, Elfeky, 2017). Some have proposed that this is because enterprises in different industries are motivated by different kinds of legitimacy, both external and internal to the company (Campbell et al., 2003; Zamil et al., 2021).

CSR disclosure and accounting manipulation are related to the legitimacy theory since they both aim to preserve or improve an organization's good standing in the eyes of its stakeholders (Blake and Salas., 2001). In the case of CSR disclosure, legitimacy theory suggests that organizations may seek to enhance their legitimacy by communicating their CSR activities and performance to stakeholders through public disclosure (Mahmud, 2019). This can help organizations demonstrate their commitment to ethical and socially responsible practices, which may be seen as a way of fulfilling their obligations and contributing to the greater advantage. However, there is also the potential for conflicts of interest between the management team (the agent) and the shareholders (the principal) when it comes to CSR activities, as discussed in the agency theory. The management team may be inclined to overstate the firm's CSR performance in CSR disclosures in order to make the company look better than it actually is (Weshah et al., 2012). This can lead to a situation in which the organization's legitimacy may be called into question, as stakeholders may perceive the company as not being transparent or trustworthy (Abed et al., 2022).

Similarly, in the case of accounting manipulation, legitimacy theory suggests that organizations may seek to enhance their legitimacy by ensuring the accuracy and transparency of their financial reporting. This can help organizations demonstrate their commitment to responsible and ethical financial practices, which may be seen as a way of

fulfilling their legal and ethical obligations (Archel, 2009). However, there is also the potential for conflicts of interest between the management team and the shareholders when it comes to accounting practices. The management team may be tempted to manipulate financial reporting in order to present the company in a more favourable light, even if it is not accurately reflecting the company's actual financial performance. This scenario may give rise to doubts regarding the organization's legitimacy, as stakeholders could perceive the company as lacking transparency or trustworthiness (Platonova et al, 2018). Overall, the relationship between legitimacy theory and CSR disclosure and accounting manipulation is that organizations may seek to enhance their legitimacy by being transparent and trustworthy in their communications and practices, while also balancing the potential conflicts of interest that may arise between the management team and the shareholders (Beddewela and Fairbrass, 2014).

Moreover, one way in which organizations may seek to enhance their legitimacy is through their tax practices. Paying taxes is often seen as a way for businesses to fulfil their social and legal obligations and contribute to the greater good. As such, tax avoidance, which is the legal practice of minimizing taxes through the use of tax planning strategies, may be perceived as illegitimate by some stakeholders (Zhang et al., 2022). However, it is important to note that tax avoidance is not the same as tax evasion, which is the illegal practice of deliberately failing to pay taxes. While tax evasion is clearly illegitimate, the legitimacy of tax avoidance is more complex and may depend on the specific circumstances and how it is perceived by stakeholders. For example, some stakeholders may view tax avoidance as a legitimate way for businesses to maximize profits and create value for shareholders. Others may view it as a way for businesses to avoid their social and legal responsibilities and potentially harm society by not contributing to public goods and services (Dewi and Gunawan, 2019).

Given this complexity, organizations may need to carefully consider their tax avoidance practices and how they will be perceived by their stakeholders. They may need to balance their desire to minimize taxes with the need to maintain their legitimacy in the eyes of their stakeholders. This may involve being transparent about their tax practices and demonstrating that they are paying their fair share of taxes. It may also involve engaging with stakeholders and being responsive to their concerns and values (Dewi and Gunawan,

2019). Legitimacy theory can be applied to the concept of tax avoidance by considering how organizations' tax practices may impact their perceived right to exist and operate in the eyes of their stakeholders (Holland et al., 2016). Organizations that seek to enhance their legitimacy may need to carefully balance their tax planning strategies with the need to be perceived as responsible and socially responsible.

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2. Chapter Two: Environmental Social and Governance (ESG) disclosure

ESG is closely related to the concept of corporate social responsibility, which emphasizes the long-term viability and resilience of businesses in a changing and uncertain world. Corporate sustainability requires businesses to balance the economic, environmental, and social dimensions of their performance, and to align their strategies and operations with the principles of sustainable development. One of the keyways that businesses communicate their CSR and sustainability efforts to their stakeholders is through disclosure, which involves the voluntary or mandatory reporting of relevant information about their environmental, social, and governance (ESG) impacts and practices. The purpose of this chapter is to present the evolution and current state of ESG disclosure, and to explore its benefits and challenges for businesses and society. The chapter will also discuss the main drivers and regulatory frameworks that shape the ESG disclosure landscape.

Stakeholders may have diverse perspectives, interests, and expectations regarding ESG policies and its disclosure. Therefore, understanding the needs and preferences of different stakeholder groups is essential for businesses to design and implement effective ESG disclosure strategies that can enhance their legitimacy, reputation, and performance. The chapter will review how and why stakeholders use and react to ESG disclosure, and what factors influence their perceptions and behaviours. The chapter will also discuss the main challenges and opportunities that businesses face in engaging and communicating with their stakeholders through ESG disclosure, and how they can overcome them. By doing so, the research proposed in this chapter aims to provide a comprehensive and critical overview of the stakeholder perspective on ESG disclosure, and to highlight its significance and potential for advancing corporate sustainability.

2.1 ESG disclosure

Over the last few decades, and especially after the 2007–2010 global economic crises caused by improper business conduct, societal issues, and environmental disasters caused by poor risk management practices, scholars have focused on corporate sustainability development (Ali et al., 2018; Zhao et al., 2018). Sustainable development, according to the World Commission on Environment and Development (1987), is

"development that meets the needs of present generations without compromising the ability of future generations to meet their own needs". Efficiency, sustainable growth, and shareholder value enhancement are the three pillars of corporate sustainability. As a result, the conventional shareholder-oriented paradigm (Friedman, 1970), that prioritized increasing financial return to shareholders, is evolving. There are three main aspects to CSR disclosure: economic, environmental, and social. The disclosure of environmental, social, and economic information, which encompasses a wide range of factors related to the environment, society, and government, is becoming increasingly important as businesses realize that ignoring these factors will seriously limit their ability to succeed in the future.

The growing ESG awareness is also reflected in the increasing number of ESG disclosure and sustainability reports (Gray et al. 2001; Kolk, 2005). ESG disclosure can be defined as the information that a company discloses about its environmental, social and governance impact and its relationship with its stakeholders by means of relevant communication channels (Campbell, 2004; Gray et al. 2001). The number of businesses that practice sustainability strategies and publicly disclose their environmental, social, and governance information has increased as a direct result of growing public awareness as well as corporate acknowledgement (Xie et al., 2019). According to a report that was published in 2018 by the Global Reporting Initiative (GRI, 2018), there have been 50,197 sustainability reports that have been released by 12,964 organizations all over the world on a voluntary basis. They are reports in the form of ESG information disclosure (environmental, social, governance).

It is crucial and desirable for firms to inform stakeholders about their ESG efforts in addition to merely engaging in them (Holder-Webb et al., 2009). Also, as more people are becoming aware that financial statements exclude important information about the company, the demand for disclosure of non-financial information has increased (Adams, 2002). By giving only financial data, the financial statement actually gives a limited view of the company. As a result, non-financial information has become increasingly important over time. Non-financial reporting is a growing trend that represents an effort to promote openness in company behaviour related to economic, social and environmental issues

(Ellerup Nielsen and Thomsen, 2007). It is also recognised that non-financial information must be disclosed in order to lessen the information asymmetry between management and important stakeholders, to improve investor understanding of critical performance areas, and to enable a broader perspective on company performance that takes society as a whole into account (Huang and Watson, 2015). Today, companies all around the world are more voluntarily releasing information about their ESG performance, which goes hand in hand with the increased interest in participating in ESG activities (Holder-Webb et al., 2009).

The incorporation of ESG information is pertinent for investors in evaluating corporate conduct and guaranteeing the long-term viability of corporations in relation to their investment choices (Huang and Watson, 2015). Corporate environmental practices and disclosure encompass a company's efforts to manage its emissions, waste, and pollution, as well as its strategies for addressing climate change risks and preserving environmental and natural resources. The spectrum of social information encompasses a wide range of topics, including but not limited to labour relations, product liability, supply chain management, community investment, labour and human right policies, and the efficacy of health and safety policies to prevent accidents (Zhao et al., 2018). In addition, it is imperative for corporations to establish a proficient framework of corporate governance, encompassing board composition, auditing protocols, ethical standards, and shareholders' entitlements, both at the organizational level and throughout the entire economic system. This approach is instrumental in cultivating innovation and engendering confidence in a market-based economy (Hung et al., 2013). A resilient framework is established by integrating the three dimensions (ESG dimensions) to reinforce managerial strategies aimed at monitoring and improving sustainable performance of corporations.

For companies that have been involved in ESG initiatives, corporate social responsibility disclosure (CSRD) is required in order to demonstrate their dedication to their ESG obligations to the community and the environment (Setiawan and Janet, 2010). The channels of communication between firms and individuals are represented by it. Companies who reveal their participation in ESG initiatives obtain a number of advantages, including enhanced corporate reputation, increased credibility, improved financial

performance, increased market share value, attract new investors, and improved capacity to compete (KPMG, 2011).

To categorize CSRD, several groupings were used. These groups have been sharply segmented into six key categories: workers, energy, product, community engagement, human rights, and environmental preservation (Thompson and Zakaria, 2004). There are several studies on the CSRD in annual reports that use content analysis in different dimensions, industries, and nations (AlNaimi et al., 2011; Hassan et al., 2012).

According to several studies, CSRD is linked to higher analyst forecast accuracy and less capital costs (Vanstraelen and Zarzeski, 2003; Aerts et al., 2008; Sharfman and Fernando, 2008; Dhaliwal et al., 2011; Hung et al., 2013). Additionally, CSRD assists in minimizing information asymmetry and hence help to reduce the cost of capital.

Regarding the usefulness of the data provided by CSRD, previous literature offers a variety of viewpoints. While some studies raise concerns about this effectiveness (Marquis and Qian, 2014), other studies show that non-financial disclosures, such as ESG disclosures, can offer significant additional information that is used by market participants and, as a result, help to mitigate information asymmetry. Furthermore, previous research has found that ESG disclosure leads to a reduction in a firm's cost of capital (Sharfman and Fernando, 2008; Dhaliwal et al., 2011).

On the one hand the ESG literature assumes that the information disseminated is based on true facts and adheres to high standards of quality and the higher the quality of a firm's ESG disclosure, the more credible and reliable the information disclosed (Leitoniene and Sapkauskiene, 2015). High-quality ESG disclosure benefits firms in a variety of ways, including (a) increased investor trust, which makes it easier to obtain capital, mitigate financing constraints, and enhance its reputation (Dhaliwal et al., 2011); (b) improved information symmetry (Cho et al., 2013), which eliminates the perception of any irregularity in presented information; and (c) effectively counteracts the economic conflict caused by information asymmetry (Biddle et al., 2009).

While on the other hand, certain studies show that firms adjust their information disclosure to achieve their desired market reaction. Firms, for example, tend to maintain high disclosure frequency prior to equity offers (Jo and Kim, 2007), mislead investors by minimizing report readability, and provide incorrect information to deceive investors (Lo et al., 2017).

ESG disclosure is now more widespread than usual, due to the development of multinational corporations that export western standards to host nations. Companies are anticipated to increase shareholder wealth while keeping societal expectations into mind (Ioannou and Serafeim., 2017). Yet, the lack of community involvement on the part of businesses and the lack of transparency regarding the effects of their actions on society have given rise to the idea of mandated ESG disclosure. Despite the apparent contradiction, numerous nations have taken steps to make ESG disclosure mandatory over the past ten years. For example, countries such as South Africa were pioneers in requiring mandatory ESG disclosures (Armstrong et al., 2010).

In 2014, The European Union only implemented a directive requiring "disclosures of non-financial and diversity information" for large businesses in April 2014. The directive had taken effect for all fiscal years beginning on or after January 1, 2017. The directive was primarily intended for businesses who are listed on EU exchanges or that have significant operations within the EU. Based on their operations, size, or workforce, these businesses are classified as major or public-interest entities (PIEs). According to the ESG directive, businesses must include a non-financial statement in their annual management report outlining how their "development, performance, position" and activities have affected "environmental, social, and employee matters, respect for human rights, anti-corruption and bribery matters (Directive, 2014). The goal of disseminating such non-financial information is to assist a variety of stakeholders in evaluating the environmental and social impact of large corporations, motivate them to act responsibly, promote robust growth and employment, and boost stakeholder trust, including that of investors and customers (Mittelbach-Hörmanseder et al., 2021).

The publication of this directive is considered as a milestone in indicating the importance of sustainability within the EU, and although there is a gap between issuing EU directive and being mandated, many companies are influenced by the directive expected this shift by proactively increased their ESG activities before the EU mandate came into effect (Fiechter et al., 2019). These requirements are going to be compulsory for European companies for the report of 2024 (Directive (UE) 2022/2464).

The primary purpose of establishing businesses is to make a contribution to the economy and meet the societal demands for goods and services. A business entity holds a primary position as an economic unit within society, preceding all other entities. Therefore, it can be argued that the economic impact holds paramount significance in the evaluation of corporate social responsibility initiatives (Khuong et al., 2021). In this context, the implementation of ESG practices is expected to enhance the overall functioning of corporations, including their accounting practices, and mitigate the occurrence of accounting manipulations. Furthermore, ESG dedication is exhibited through the implementation of policies and procedures, particularly those pertaining to financial issues, that are aimed at responding to the requirements of stakeholders. ESG practices have been extensively scrutinized with regards to its social and environmental implications. But not much study has been done on how they might be connected in the economic and financial area. Engaging in ESG initiatives can lead to the development of stakeholder policies that may influence accounting information. The disclosure of ESG information could potentially decrease the prevalence of accounting manipulation (Chih et al., 2008; Martinez-Martinez et al., 2021).

The implementation of financial policies to fulfil stakeholder expectations, coupled with the examination of the utilization of ESG information to conceal or mitigate the impact of deceptive accounting practices (Samuels et al., 2021) or fraudulent financial reporting can take different aspects such as real earnings management practices and tax avoidance practices, in both types could be used in a way to favour stakeholders or they can be used in a fraudulent way. From a certain perspective, earnings management may be perceived as a set of accounting practices that adhere to generally accepted principles, and which may serve to prioritize the interests of specific stakeholders. It may be useful to think

about policies regarding collections from customers and payments to suppliers. For instance, extending collection periods for customers and shortening payment periods for suppliers (Roychowdhury, 2006; Lee, 2012). These accounting practices in question may impact the operating cash flow, but it is important to note that they do not necessarily constitute accounting manipulation from a ESG perspective. Regarding to tax avoidance, two different types of practices could potentially have tax implications. It is possible that certain practices may stem from investments aligned with a company's ESG strategy, while others may stem from the exercise of taxes avoidance practices.

2.2 International guidance on ESG information preparation

Many international organizations have proposed standards, guidelines, principles, or rules to improve and standardize company ESG disclosures. These include public bodies with standard-setting capacity like the Organization for Economic Cooperation and Development (OECD), and private organizations like the Global Reporting Initiative (GRI), International Organization for Standardization (ISO), and others as Sustainability Accounting Standards Board (SASB). Europe has also developed its own ESG standards (ESRS).

GRI indicators, ISO standards, and OECD guidelines for multinational organizations are internationally recognized guidelines for social and environmental information preparation (Balzarova and Castka, 2018; Barakat, 2015). These recommendations and initiatives promote ESG reporting homogeneity (Branco et al., 2018; Camelleri, 2016). These reports hold stakeholders accountable in many ESG areas and provide indicators for management. Standardized approaches are utilized to provide quality information in many business areas (Reverte, 2009).

2.2.1 The global reporting initiative (GRI)

The Global Reporting Initiative (GRI) is an organization that was started in 1997 in Amsterdam. It was the first to create a common worldwide conceptual framework for sustainability reporting (Gómez-Villegas and Quintanilla, 2012). This framework is

designed for any business, no matter its size, industry, or location, that voluntarily commits to adhering to the standards to stakeholder measurement, disclosure, and accountability.

The GRI's framework for reporting on sustainability can be applied at several depths according to the criteria given by the organization. Classifying users into three categories: novices, intermediates, and advanced users. Each organization is responsible for determining its own level of compliance with the proposed standards and reporting that information to the GRI. In addition, it advocates for and details the feasibility of an external evaluation process of the report's criterion application. Companies' sustainability reports can be given an A, B, or C grade depending on how well they adhere to the framework and whether or not an external evaluation was conducted; a plus sign (+) indicates that an independent third party was consulted.

Applying the GRI guidelines, a company's sustainability report presents, on the one hand, a basic content, where reference is made to the company's profile, material aspects, governance, stakeholders, etc., as well as specific content referring to the various areas of sustainability, economic, social, and environmental, including the management approach and indicators that seek to measure the degree. The indicators allow the social, environmental, and economic aspects of sustainability to be measured and accounted for (Tschopp and Huefner, 2015).These indicators have garnered widespread support from businesses on a global scale, and a large number of businesses in a variety of countries now use them.

2.2.2 The first conceptual framework proposed by the GRI

The GRI's "Sustainability Reporting Guidelines" (GRI, 2006) offered a method for compiling data related to a company's social, environmental, and financial performance. The two primary sections were the reporting guidelines and the implementation instructions.

The principles presented in the Guide are, on the one hand, consistent with those found in general accounting plans (Gómez-Villegas and Quintanilla, 2012) and are separated into two groups: those that govern the report's content and those that establish its

quality (GRI, 2013). Stakeholder participation, sustainable context, materiality, and completeness are the guiding factors that define what is included in the report. According to the GRI's 2013 reporting principles, a company's sustainability report should include details about the organization's stakeholders, its sustainable context, how it has responded to stakeholder expectations, and whether it has helped improve or worsen social, environmental, and economic conditions and trends. GRI (2013) states that the criteria of comparability, accuracy, timeliness, clarity, and reliability should be adhered to while creating a high-quality sustainability report. The application manual also details the steps that businesses should take to put the report's recommendations into practice and provides guidance on making sense of the data. Also included are basic notes and a glossary on sustainability reporting (GRI, 2013), as well as references to the work of other organizations like the OECD.

2.2.3 The current GRI conceptual framework

The GRI Standards or GRI Norms, released on October 19, 2016, supplanted the Guidelines. As of July 1, 2018, all published reports and other materials must adhere to the GRI Standards. Series are used to organize the many sets of criteria. Sustainability reporting guidelines are compiled in the general 100 series. Standard 101 is the foundation since it compiles the Guidelines' main ideas for determining report content and quality. Organizational profiles, strategies, ethics and integrity, corporate governance, stakeholder involvement, and reporting processes are all examples of material contexts that should be disclosed in accordance with GRI 102 on general disclosures. Information on the relevance of an issue to the firm, its impact, and the company's response to the issue is reported in accordance with the GRI 103 management approach standard (GRI 101: 4).
The 200-series covers the economic facets of sustainability, the 300-series covers the environmental facets, and the 400-series covers the social facets.

According to the GRI Standards, an organization's economic impacts on its stakeholders' economic conditions and on economic systems at the local, national, and global levels constitute the economic dimension of sustainability.

The Economic Series of Standards (200) discusses the distribution of an organization's financial resources and its major societal effects. Economic performance is the focus of GRI 201. This encompasses a wide range of factors, such as an organization's economic value generated and distributed (EVGandD), its defined benefit plan commitments, any government help it receives, and the monetary ramifications of climate change. The Standard's disclosures can shed light on an organization's effects on economic performance and the steps it takes to mitigate those effects.

According to (GRI 201: 1) the reporting organization shall report:

a. Direct economic value produced and distributed (EVGandD) on an accrual basis, comprising the organization's core worldwide operations components. Report the following essential components and the reason for cash-based data.

b. Report EVGandD separately at country, regional, or market levels and significance criteria.

A company's ability to create wealth for its stakeholders can be gauged at its most fundamental level through data on the generation and distribution of economic value.

The EVGandD provides an economic picture of a business through its various components, which can be used to standardize other performance metrics. Moreover, if separated by country, EVGandD provides a clear picture of the monetary benefit to those countries' economies (GRI 201: 1).

2.2.4 The International Organization for Standardization (ISO)

The International Organization for Standardization (ISO) is a non-governmental organization based in Geneva (Switzerland), made up of 164 standards bodies from different countries. Its experts create voluntary standards aimed at business, government and society for the practical development of actions that facilitate international trade, the dissemination of knowledge and sharing technological advances and management practices (Balzarova and Castka, 2012). Thus, since ISO started operating in 1947, 22,532 standards have been published covering different topics, including ESG, which is included in the ISO 26000 standard, known as the guide on social responsibility.

The ISO 26000 standard was drawn up in consultation with six interest groups (companies, government, consumers, workers, NGOs and specialists), and with the participation of 300 ESG experts from ISO member countries in a process that lasted 5 years. It was finally published in November 2010.

ISO 26000 establishes a series of principles and processes for the promotion, formulation, implementation and communication of ESG policies. Companies, of different sizes, sectors and countries apply those guidelines that are most useful to them (Moratis, 2018; Toppinen et al., 2015). It is a standard that is not certified (Balzarova and Castka, 2012). ISO 26000 identifies seven main areas: corporate governance, environment, human rights, fair operating practices, labor issues, consumer issues and community engagement (ISO, 2010; Szczuka, 2015; Toppinen et al., 2015).

2.2.5 The Organization for Economic Co-operation and Development (OECD)

The Organization for Economic Co-operation and Development (OECD) is a global organization that endeavours to foster economic growth, affluence, and sustainable development within its member nations. The Organization for Economic Co-operation and Development (OECD) is an entity that strives to achieve sustainable economic growth, job creation, and improvement of living standards in its member countries, in accordance with the Convention on the Organization for Economic Co-operation and Development (OECD,1960). Since its inception in 1960, the organization has developed a set of policies that incorporate corporate social responsibility to achieve this goal. According to Branco and Delgado (2012) report, the OECD Guidelines for Multinational Enterprises were published in 1976. The text provided by the user can be classified into two fundamental elements: the instructions and their implementation.

The opening segment outlines a set of recommendations that aim to direct multinational corporations operating in compliant countries towards a more socially responsible economic and environmental conduct that conforms to worldwide standards (Seck, 2016). Currently, the guidelines incorporate a variety of themes related to CSR, such as information transparency, human rights, labor and employment relations, environmental

issues, corporate governance, anti-corruption measures, consumer protection, scientific and technological progress, competition, and taxation affairs (Branco and Delgado, 2012; OECD, 2013). The content mentioned above has undergone multiple revisions over a period of time. Significantly, the integration of environmental protection took place in 1991, subsequent to which there were additional modifications in 2000 and 2011. In 2011, a section on human rights has incorporated into the material (Seck, 2016).

The OECD Guidelines for Multinational Enterprises provide a framework for corporations to include certain elements in their reports related to information disclosure. These elements cover economic aspects such as operating results and commercial objectives, as well as social aspects such as employee and stakeholder relations, adherence to principles declarations, implementation of codes of conduct, and the resulting outcomes. In accordance with the Human Rights chapter, it is imperative that corporations conform to universally recognized human rights standards, human rights treaties ratified by the states in which they operate, and the domestic laws of the countries in which the company conducts its business. It is crucial for corporations to recognize, prevent, mitigate, remedy, and assume accountability for the negative consequences of their operations. Furthermore, it is imperative that they encourage ethical behaviour among their associates (Cantu-Rivera, 2015).

The labour rights section emphasizes the importance of upholding the fundamental principles outlined in the International Labor Organization (ILO) Declaration. It also highlights the ethical responsibility of companies to aid in the eradication of child labor and forced labour, as well as to provide information and assistance to workers in exercising their right to association and collective bargaining (Wolman, 2010). Governments have a responsibility to implement measures that ensure the well-being of workers (Wolman, 2010).

The section pertaining to environmental preservation outlines a series of suggestions for enhancing sustainability. These include the implementation of suitable environmental management systems via the gathering of data, the establishment of goals, and their subsequent monitoring and validation. Additionally, the involvement of

communities and other stakeholders in environmental decision-making is deemed crucial (Seck et al., 2016).

The guidelines pertaining to corruption, bribery, and other forms of extortion mandate that companies refrain from engaging in the act of offering, promoting, demanding, or giving bribes for the purpose of conducting or retaining business or obtaining any other improper advantages. Additionally, companies are obligated to reject any such forms of extortion (Branco and Delgado, 2012).

According to OECD (2013), the section concerning consumer interests urges corporations to implement equitable business, distribution, and advertising policies, while also guaranteeing the quality and intended use of their merchandise.

The section pertaining to science and technology emphasizes the role of companies in enhancing a country's innovative potential. This can be achieved by facilitating technology transfer, conducting research and development activities to cater to the local market demands, providing training to employees, and collaborating with public institutions and other agencies for research and project execution (OECD, 2013).

In relation to competition guidelines, corporations are required to adhere to regulations, cooperate with governing bodies, foster employee consciousness, and refrain from engaging in anti-competitive arrangements (OECD, 2013).

The Organization for Economic Cooperation and Development (OECD) delineates diverse implementation procedures in its guidelines. The establishment of a National Contact Point (NCP) is deemed as one of the mechanisms that should be implemented by governments. The National Contact Point (NCP) is responsible for overseeing the degree of implementation at the national level, advocating for the guidelines, receiving inquiries, and resolving instances of non-compliance through an extrajudicial mediation and conciliation mechanism (Carolei, 2018). Non-governmental organizations, business entities, and labor associations are eligible to participate in the business continuity planning (BCP) processes (Cantu-Rivera, 2015). The procedure of consultation, mediation, and conciliation that is deemed admissible for processing may culminate in the agreement or

non-agreement of the parties concerned. In the event that the parties come to a mutual understanding, the BCP shall proceed to generate a report pertaining to the matters that were previously identified as non-conforming with the established guidelines. Whether the parties fail to come to a consensus, a suggestion for adherence to the guidelines is conveyed, and the rationales for the parties' inability to reach an agreement may be articulated in the aforementioned suggestion (Cantu-Rivera, 2015).

The literature highlights a constraint of the guidelines, which is their voluntary or non-binding character (Cantu-Rivera, 2015). Notwithstanding the voluntary nature of the implementation of these standards, it is mandatory for adhering governments to endorse the guidelines and establish policies, regulations, and controls to encourage their implementation in member countries, as per the OECD (2013). Indeed, they serve as a crucial point of reference in nations that are in the process of emerging and developing. Furthermore, it should be noted that the aforementioned guidelines derive their basis from international treaties and universally acknowledged international declarations, thereby, imbuing this instrument with a legal dimension that serves to augment its implementation (Barkemeyer et al., 2014; Cantu-Rivera, 2015).

2.2.6 European Sustainability Reporting Standards (ESRS)

In accordance with EU legislation, prominent corporations and listed entities (excluding micro-enterprises that are listed) are obligated to divulge details regarding their perception of the potential hazards and prospects related to social and environmental concerns, as well as the repercussions of their operations on both society and the natural world.

The European Green Deal incorporates a mechanism that enables investors, civil society organizations, consumers, and other stakeholders to assess the sustainability performance of companies.

The implementation of the new regulations will guarantee that investors and other stakeholders are provided with the necessary data to evaluate the potential investment hazards that may arise from climate change and other sustainability issues. Additionally, they will establish a culture of transparency regarding the effects of corporations on

individuals and the natural world. In the medium to long term, companies are expected to experience a reduction in reporting costs as a result of the harmonization of information to be provided.

The European Commission made a formal request for technical advice on June 25th, 2020, tasking EFRAG with conducting preliminary work in anticipation of potential European Union non-financial reporting standards within a revised Non-Financial Reporting Directive (EFRAG, 2020).

The European Commission has recently put forth a legislative proposal for a Corporate Sustainability Reporting Directive (CSRD) on 21 April 2021. This directive would require companies within its scope to report in accordance with European sustainability reporting standards that have been adopted by the European Commission as delegated acts. As per the proposed CSRD, the European Financial Reporting Advisory Group (EFRAG) would be entrusted with the responsibility of formulating preliminary standards. This would be carried out through a meticulous due process, with public oversight and transparency, and in consultation with pertinent stakeholders possessing the necessary expertise (EFRAG, 2021).

The implementation of reporting obligations will be staggered across various types of corporations. The initial cohort of enterprises will be required to adhere to the prescribed criteria during the fiscal year 2024, with respect to publications released in 2025. Small and medium-sized enterprises (SMEs) have a mandatory reporting requirement starting in 2026, with an optional opportunity to opt-out until 2028. EFRAG will develop separate and proportionate standards for SMEs to report accordingly (EFRAG, 2023).
According to (EFRAG, 2023) ESRS is focusing on environment, social and governance aspects.

Environment

The aim of this particular standards is to establish a set of guidelines for disclosing information that would allow individuals who review sustainability statements to comprehend the impact of the organization on climate change. This includes both positive

and negative material actual or potential impacts. In addition, the organization's endeavors to mitigate climate change in the past, present, and future are evaluated based on their alignment with the Paris Agreement or any revised international agreement on climate change, with the aim of restricting global warming to 1.5°C. Furthermore, the organization's strategies and capabilities to modify its business models and operations in accordance with the shift towards a sustainable economy and its contribution towards limiting global warming to 1.5°C are assessed. The report should include information on any measures implemented to prevent, mitigate, or remedy any actual or potential adverse impacts. Additionally, it should detail the nature, type, and extent of material risks and opportunities that arise from the business's impacts and dependencies on climate change, as well as how these risks and opportunities are managed. The report should also examine the effects of these risks and opportunities on the firms's development, performance, and position over the short, medium, and long-term, and how they may impact its ability to create enterprise value.

Social

The social standards give a framework for entities to report on issues that are linked to their own workforce, the workers in their value chains, the communities that are influenced by their operations, and the consumers and end-users of their products or services. Among the goals of this standards are to specify disclosure requirements that will allow users of sustainability statements to understand the following: (a) how the firm affects own workforce, in terms of material positive and negative actual or potential impacts; (b) any actions taken, and the result of such actions, to prevent, mitigate, or remediate actual or potential adverse impacts; (c) the nature, type, and extent of the company's material risks and opportunities; and (d) how the firm affects own workforce in terms of positive and negative materiality.

Governance

The disclosure requirements of these standards facilitate comprehension for users of sustainability statements regarding the governance structure, internal control, and risk management procedures of the entity in question. The objective of these standards is to

enhance the comprehension of users regarding the effects of a company on the environment and individuals. It also aims to assess the potential risks and opportunities associated with these impacts and dependencies, and their influence on the firm's development, performance, and position in the short, medium, and long term, as well as its capacity to generate enterprise value.

The CSRD mandates that sustainability reporting standards must outline the information to be disclosed regarding governance factors. This includes details about the administrative, management, and supervisory bodies of the firm, their involvement in sustainability matters, and their composition. Additionally, the standards must provide a description of the diversity policy applied and its implementation, as well as information about the undertaking itself.

2.3 The relation between ESG and stakeholders

Stakeholders are any group or person that can influence or is influenced by the accomplishment of an organization's goals, they are essential to a company's survival and growth (Freeman, 1984). Based on stakeholder theory the company has responsibility to operate considering the interests of all its stakeholders (Freeman, 1984). Furthermore, stakeholder theory posits that stakeholders are interdependent, and creating value for one stakeholder creates value for the others (Freeman et al., 2010). Accordingly, helping communities can make shareholders better off in many ways (more motivated and productive employees, better company reputation, bigger sales, higher corporate credit rankings); likewise, satisfying suppliers or employees is also beneficial for customers (Freeman and Dmytriyev, 2017).

Furthermore, stakeholders frequently have legal, official, and contractual obligations with enterprises, which must adhere to the ESG criteria demanded by stakeholder groups in order to succeed and achieve sustainability development goals (SDGS). Internal and external stakeholders are classified into distinct categories (De Chernatony and Harris, 2000; Khuong et al., 2021).

Managers, stockholders, business leaders, employees, and labor unions representatives are examples of internal stakeholders. Public (i.e., community and local residents), media, providers, clients and government are examples of external stakeholders. Internal stakeholders are now referred to as the groups that actively take part in business operations, including management, employees, and labor unions representatives (Aaltonen, 2011). Internal (main) stakeholders are one of the most powerful groups in a firm (Masden and Ulhoi, 2001; Rupp et al., 2006). They actively take part in a business's conception, layout, organization, and operation. The motivation, loyalty, and organizational support of managers and employees are essential if the specified objectives are to be met. (Darnall et al., 2009).

External stakeholders are people or organizations outside the business who may have an impact on or be impacted by an organization's actions (Fassin, 2008). These stakeholders have the ability to exert both direct and indirect pressure on the company's decision-making. Acceptance of enterprises' socially responsible positioning by external stakeholders is critical to acquiring their support (Minor and Morgan, 2011). With clear corporate actions and communication, an organization can shape and manage the perceptions of external stakeholders about a company (Khuong et al., 2021; Randel et al., 2009).

The effectiveness of the ESG activities depends in large part on the stakeholders (Mitnick,1995). One aspect of ESG is the notion that the company is responsible to the many stakeholders who may be recognized and who have a demand on the companies' actions that impact on them, either legally or ethically (Mitnick, 1995). Accordingly, stakeholder approach is becoming a central component of ESG (Cohen, 2017). Multiple stakeholders compete for organizational resources inside organization, necessitating the development of stakeholder management methods by organizations (Bryson, 2005). Furthermore, the kind of stakeholders who are actively involved and the resource management tactics used have an influence on the corporate strategy of the organization. Stakeholder theory interest, from a firm perspective, is concerned with three principles: basically, the organizations have stakeholders who have an impact on their activities; then, these interactions have an impact on particular stakeholders and the organization; and that main stakeholders' perceptions have an impact on the viability of organizational strategic

options (Simmons, 2004). Therefore, companies must establish appropriate strategies to interact with their main stakeholders (Carroll and Buchholtz, 2011).

It is important to consider that stakeholders may have diverse perspectives and interests, particularly when it comes to financial matters. These viewpoints may not always align with one another. The company has implemented measures to study ways to enhance relationships with stakeholders in the area of economic responsibility. It could be argued that the implementation of social responsibility standards may result in the development of policies that benefit all members of the value chain. In the following part we are going to discuss how the main stakeholders (customers, suppliers, investors and creditors) and community affect and be affected by ESG especially economic dimension.

2.3.1 Customers

Consumers are crucial to a company's survival and performance as one of the main stakeholder groups. Stakeholder theory proponents suggest a multidimensional view of customer ESG perspectives (Perez and Rodriguez del Bosque, 2016).

Consumers are interested in more than just the financial worth of their purchases. They are also concerned about the company's entire performance, including its commitment to sustainability and ESG initiatives for other stakeholder groups (Ho Lee, 2017; Perez et al., 2014). In addition, consumers are more likely to identify and be satisfied with a company if it is socially responsible toward them and other stakeholders (Ho Lee, 2017).

The opinions and attitudes of consumers may be positively influenced by businesses that engage in ESG activities and make a favourable first impression, leading to an increase in repeat business and loyalty (Kim et al, 2017). Customers are attentive to the acts of different companies. Customers respond favourably to measures that safeguard their interests, such as standard compliance, product innovation, and high-quality goods and services (Perez and Rodriguez del Bosque, 2016). Customer satisfaction and identification are positively impacted by customers' perceptions of a company's ESG approach, which enhances the financial performance of the company (Kim et al., 2017). A satisfied client who supports a company's ESG efforts may decide to make more purchases

or pass along recommendations for particular goods or services, which will enhance the company's reputation (Kim et al., 2017).

It is expected that socially responsible corporations will implement economic policies that benefit their clients and enhance their relationships with them. In this case, we can consider an extension of payment terms as a way to meet customers' financial needs.

2.3.2 Suppliers

Suppliers are important stakeholders that have an impact on how a company runs on a daily basis. Stakeholders are putting more pressure on organizations to evaluate and minimize the environmental effects of their business operations (Groenewald and Powell, 2016). One strategy used by company management to lessen negative effects of business activities on the community and strengthen stakeholder relationships is sustainable supply chain management (Luthra et al., 2015). Suppliers are the key source and initial point of contact in any supply chain, so businesses should evaluate their critical success elements before choosing their suppliers (Kannan, 2018). To compete in the extremely competitive global market of today, businesses must assess variables like cost-effectiveness, quality, and environmentally friendly raw materials when choosing sustainable suppliers (Wetzstein et al., 2016).

Selecting sustainable suppliers would help all stakeholder groups, thus businesses should take part in value creation (Park et al., 2014). The incorporation of sustainability and ESG practices into the acquisition of raw materials from suppliers can be observed in the finished goods or services of a company, which helps to promote a positive company reputation, the perception of its employees, and customer loyalty (Akremi et al., 2018). Supplier misconduct can interfere with a company's operations; thus, organizations can lower the risk associated with the supply chain by incorporating multiple stakeholder perspectives and choosing the right suppliers (Kannan, 2018).

It is anticipated that socially responsible corporations will implement economic strategies that give priority to suppliers and improve inter-organizational relationships. In this context, the reduction of payment periods as a standard that aims to benefit suppliers.

2.3.3 Community and Government

Organizations that maintain a good relationship with the society encounter minimal disruptions in the form of protests from residents in their business environment, thereby reducing costs (Price and Sun, 2017). Fostering community interests can also serve as a means of increasing firms' legitimacy with governments, thus accelerating government license, grants, and tax breaks for future projects, which in turn results in improved financial performance (Choudhury, 2014; Price and Sun, 2017). Therefore, initiatives that enhance the relationship between organizations and community are paramount for promoting good practices and creating a lasting favourable impact in the society (Liu et al., 2013).

In addition, companies can contribute positively to society in large part by paying taxes. Paying taxes is actually regarded as a requirement for being a decent citizen, and avoiding taxes is incompatible with this (Lanis and Richardson, 2012). The stakeholder-agency theory states that a company typically takes into account not only the interests of its shareholders but also how its operations affect society, the environment, and the economy. Hence, when a corporation refuses to pay the proper and acceptable quantity of taxes, the entire society will be impacted in terms of welfare aspects since engaging in such opportunistic activity prevents governments from collecting tax, which results in the sacrifice of public interests (Park, 2017). In this sense, companies that are committed to CSR are projected to lead to a reduction in tax avoidance practices. By contrary, they can increase their philanthropic activities as these endeavours such as donations, sponsorships, and investments made to promote long-term sustainability are deductible from their tax obligations in several states.

2.3.4 Investors

The perceived costs of pursuing the interests of non-shareholding stakeholders will have a negative effect on potential investors who are less concerned with sustainability practices (Stevens et al., 2015). Investors with a strong interest in sustainability practices, on the other hand, will respond positively to a firm's participation in ESG activities because of the expected long-term benefit to shareholder wealth maximization (Schwarzmuller et

al., 2017). Effective stakeholder management is crucial for managers to practice because investors will decide whether or not to increase or decrease their investment in a company based on their knowledge of its stakeholder management practices.

Moreover, companies with a ESG focus benefit from greater investor confidence, which is reflected in higher stock prices and a better reputation for the company (Kansal and Joshi, 2014). Additionally, the stakeholder-based perspective asserts that corporate social neglect may negatively affect shareholder returns in a significant way, which lowers investors' financial expectations (Price and Sun, 2017).

In addition, it is expected that misleading practices and earnings management will be eliminated when there is a significant commitment to ESG disclosure (Martnez-Martnez et al., 2021). As a result, investors will consequently lower their cost of capital.

2.3.5 Creditors

The effectiveness of ESG disclosure in reducing the financing cost relies on whether it can capture the attention of funds providers. In this section, we refer to the lenders. If ESG disclosure attracts lenders by providing them relevant extra-financial indicators useful for firm assessment, a high level of ESG disclosure implies a reduction of information asymmetry between lenders and firms, and, subsequently, an improvement in transparency (Boiral, 2013). Hence, banks will apply better conditions to loans granted to the firm. In contrast, if the financial market does not recognize the relevance and potential of ESG reports to reduce uncertainty, firms disclosing extensive environmental and social information may suffer from a competitive disadvantage due to the additional costs that it will incur from the resources spent for these reports (Kim and Sohn, 2013). Banks evaluate the firms' interest rate with respect to the future risks including the adverse effect of future regulatory costs imposed by the government and other stakeholders (Khlif et al., 2015). That is why firms disclosing social and environmental information can enjoy a lower cost of debt, which, accordingly, increases its financial performance (Hamrouni et al., 2020).

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3. Chapter Three: ESG disclosure and accounting manipulation

This chapter specifically focuses on earnings management and tax practices as methods of accounting manipulation. We show how the relationship between ESG disclosure and accounting manipulation is complex. On one hand, ESG disclosure is intended to showcase a company's ethical commitment, suggesting that ethically principled companies are less prone to financial deceit. However, there is a more immoral aspect where ESG disclosure might be misused to conceal accounting numbers, exploiting stakeholder trust. While such actions may artificially improve financial results in the short term, they risk causing lasting damage to the company's reputation and could result in legal consequences.

In this chapter aim to show the narrative related to the mechanisms through which ESG disclosure can either combat or contribute to accounting manipulations. We will explore the role of earnings management, where companies might adjust financial reporting mechanisms to create a more favourable economic picture than reality warrants which will be investigated in chapter 4. Further, we will examine how ESG disclosure relates to tax practices, often a gray area where ethical and legal boundaries may blur, we will inspect this in chapter 5. The intricate relationship between ESG disclosure and financial transparency is not merely a matter of corporate policy but a reflection of deeper ethical considerations that affect all stakeholders. By analysing the influence of ESG on the cost of financing, we aim to unravel the potential benefits of genuine ESG engagement in terms of reduced cost of debt and equity. Conversely, we will also consider how real earnings management can modulate this relationship, potentially leading to increased financing costs and eroded trust which will be investigated in chapter 6.

In conclusion, this section will not only provide an analytical framework to understand the complex relationship between ESG disclosure and accounting manipulation but also offer insights into how companies can navigate these challenges to maintain integrity, fulfil their ethical obligations, and uphold the trust of their stakeholders.

3.1 Ways of Accounting manipulation

Although ESG oriented companies should behave ethically but it could be possible that companies disclose ESG and commit manipulation. In this regard, we are going to

introduce some accounting manipulation practices and how it could be related to ESG disclosure.

Accounting manipulation generally includes smoothing practices (Latshaw and Elifoglu, 2003). The companies future prospects are hinted at in the yearly financial statements and informative tax filings, and management may be assessed in part based on financial performance and condition. Hence, to give out an optimistic message about future prospects or to reach certain financial objectives, there may be incentives to alter accounting records. Since the accounting unit is required to record all economic transactions in a way that the financial records will present a true and fair view of the facts that are the subject of accounting, the financial records should provide accurate and pertinent information in accordance with current national and international accounting and reporting standards. The way in which economic transactions are reported provides information on the company's profits quality and financial stability (Kaya and Turegun, 2017).

Top management or owners of the company are responsible for financial reporting, which is defined as disclosing financial results and related information to all stakeholders, regardless of their stake in the company (provided that the owner structure also serves as the management structure for the company). In summary, either a deliberate action was taken to conceal facts regarding the true economic activity and financial soundness of the organization, or the information was supplied inaccurately due to an inadvertent mistake, earnings are just managed when financial records are controlled or handled for one's profit, particularly in an unethical way to paint more favourable and upbeat image (Kaya and Turegun, 2017; Weil et al., 2013).

Accounting manipulation in for-profit companies is linked to financial health, the link has been found between poor financial health and accounting manipulation, finding that those who are comparatively in poor financial shape are more likely to manipulate their accounting records (Beneish, 1997; Dechow et al., 1995). In this vein, accounting smoothing is more likely to occur when an organization's future prospects are poor, in addition, certain financial factors represent an organization's financial health and that

accounting manipulation is related to these variables (Beneish, 1999; Summers and Sweeney,1998).

Although there are many methods of accounting manipulation, this chapter focuses on earning management and tax practices.

3.1.1 Earnings management

Companies' principal goal is to maximize shareholder value by making the most of the assets that were bought with debt and equity. Shareholders must be encouraged to invest in order to increase capital, which only happens if they anticipate strong future business success. Therefore, in order to get money, it is in the firm's best interest to disclose positive results, positive earnings growth, and to match analyst expectations (Degeorge et al., 1999). Even while companies do not want to see their stock prices fall, it is doubtful that they can consistently live up to these expectations. As a consequence, companies may control profits to maintain equity and fulfil shareholders' expectations. Based on that it is necessary to know that earnings are constitute of accruals and cash flow from operations. Accordingly, companies may handle earnings in one of two ways. First, companies may control profits by deviating from their regular course of operations, which will have an impact on their operating cash flow. This is called real earnings management (REM) which is defined as the practice of departing from customary corporate procedures to influence reported income (Rowchowdhury, 2006). Second, a company may alter its accruals level to obtain the proper level of profits. Managers make decisions known as accrual-based earnings management in financial reporting (AEM) (Healy and Wahlen 1998).

Both real earnings management and accruals management are methods of managing earnings, and both have distinct effects on the amount of earnings. These methods are discussed in the following sections**.**

3.1.1.1 *Real earnings management*

Firms may decide to deviate from their usual course of operations in order to achieve the desired level of profits, even if doing so may have a negative impact on their future financial performance (Rowchowdhury 2006). Numerous strategies to control

revenues via deviating from typical company operations have been revealed in earlier research (Bange and De Bondt 1998).

Real earnings management is a deviation from normal practice prompted by manager's intention to misinform stakeholders and tell them that their expectation and the financial reporting target have been achieved in the normal operating course (Roychowdhury, 2006). Also, managers can manipulate operating cash flow through sales manipulation. They could try to increase sales temporarily by offering unusual price discounts or more lenient credit terms, this leads to increase earnings in the current period and increasing operating cash flow, but in reality, operating cash flow decrease when it is compared to sales (Roychowdhury, 2006). The other activity is overproduction, by doing so two effects result, the first one is getting lower cost of goods sold as fixed costs are distributed over a higher number of units, whereas the company tolerates production and it holds costs on the over produced inventories that are not retrieved through sales in the same period so cash flow from operations is declined and earnings are increased. Accordingly, over discounts, lenient credit terms and overproductions increase profit margin which leads to increase earnings, however, they induce to decline operating cash flow comparing to sales because both activities result in higher production costs relative to sales (Gunny, 2010). The other activity that is mentioned extensively in the literature is reducing research and development expenses (RandD). This leads to increase earnings and if these expenses are in the form of cash it will lead to increase operating cash flow. As a result, if firms participate in the aforementioned practices in an unusual way with regard to economic circumstances with an intention to meet or beat earnings target, then they are involving in real earnings management activities (Roychowdhury, 2006). We consider abnormal operating cash flow as an index of real earnings management based on the consequences of price discounts, lenient credit, abnormal production costs, abnormal RandD expenses and terms, misclassifying of cash flow statement on operating cash flows. Accordingly, the effect of all of these activities will be reflected to abnormal operating cash flow (Amoah et al., 2017; Nagar and Raithatha, 2016).

These techniques may be classified into two categories: deviations from finance activities and deviations from operating and investment operations (Xu et al. 2007). By changing the amount of discretionary spending, such as RandD and commercial, general,

and administrative (SGandA) expenses, for example, companies might stray from operating and investing operations (OandI). According to IFRS, marketing and research expenses are deducted in the period in which they are incurred. Additionally reported revenue is instantly impacted by lowering these expenses, and due to uncertainties surrounding the emerging product or service, development expenditures are first expensed rather than capitalized (IASC, 2003), delaying development initiatives might also boost profits.

Companies' operating and investment activities may vary if they overproduce, provide price concessions to increase sales volume, and accumulate inventory to decrease their cost of goods sold, all of which have an impact on profitability (Rowchowdhury 2006). Because fixed overhead expenses are therefore distributed across a greater number of items, companies that overproduce see a reduction in their costs of goods sold per product. Additionally, if the fixed assets are sold for a profit, companies may also sell them to control profits.

In sum, there are many ways to affect the cash flow from operations in order to change the amount of profits. Additionally, earnings may be changed by altering the rate of accruals. How accruals may be used to influence profits is discussed in the paragraph that follows.

3.1.1.2 Accrual-based earnings management

The accruals earnings management (AEM) method is one of the most widely used forms of accounting earnings management, and it is debated in the literature (Zang, 2012), accruals are used to manage earnings from the real value to the desired level because they are the components that do not imply cash flows (Tsipouridou and Spathis, 2012). AEM occurs as a result of a change in accounting policies used to reflect financial transaction and events in financial statements (Zang, 2012).

AEM happens when managers use irregular accruals to "borrow" money from future periods in order to boost current ones or, on the other hand, defer some income in order to lower real ones (Abernathy et al., 2014). A well-researched subject in the literature is the estimation of the earnings management process intensity through the AEM using one

of two metrics: the size of absolute discretionary accruals or the quality of accruals (Setiawan, 2009).

The main goal of accruals is to show the underlying performance of the company rather than just showing cash inflows and outflows. This is done by documenting revenues and costs to the period in which they are incurred. Deferred revenue, for instance, is an accrual that is reported when the cash flow from a sale is received before the transaction is recorded (IFRS, 201). Accruals may be utilized to control profits even if its primary purpose is to represent a company's actual performance. When managers have to record accruals for situations that go beyond the scope of accounting norms, reported income might be distorted. Losses from bad debts, asset impairments, and the salvage value of long-term assets are a few examples of these occurrences. So, AEM has been used to determine if these estimates have been skewed in order to alter the underlying genuine economic performance (Healy and Wahlen, 1998).

REM and AEM are the two methods available to control profits. the relative cost of these measures determines whether or not organizations opt to use one earnings management approach over another. Hence, if the costs of using AEM are greater than the costs of using REM and vice versa, it means that REM is applied significantly more than AEM (Zang, 2012).

3.1.2 Tax avoidance practices

Corporate tax avoidance has been a matter of considerable public attention, and of interest for society and communities to evaluate the social commitment of companies. Tax revenues are considered vital for governments to redistribute wealth and provide social services that contribute to cohesion and development of societies, such as health, education, public transportation, defence and other variety of services (Makni *et al.,* 2019). The payment of taxes enables the government to provide public goods (Freise *et al.,* 2008) and the avoidance of them leads to affect negatively on society (Lanis and Richardson, 2012). The survival of society and the provision of public amenities depends on tax income (Martinez 2013). Despite the fact that few people taking the initiative to pay taxes (Listokin and Schizer. 2013), they are important to fund critical governmental services including

national security, transportation infrastructure, and public welfare (Makni et al., 2019). Companies also profit from a skilled labour force, government-funded basic research, and transportation and utility infrastructure that were built, supported, and maintained with money earned from taxes (Freise et al., 2008). A government that is unable to collect taxes simply cannot fulfil its functions (Avi-Yonah, 2006), and the accomplishments of a civilized society also vanish along with it. Avoiding paying taxes makes it difficult for the government to provide necessary services now and in the future. Companies freely use public resources while also making enormous efforts to avoid making as much contributions to pay for those services as they can. The difficult objective of reasonable taxes to sustain an egalitarian society is hindered by tax avoidance (Makni *et al.,* 2019).

The problem of tax avoidance arises of the conflict of interest between taxpayers and tax authorities. This problem has been studied by agency theory where the principal is the government that wants to collect higher amount of taxes, while the agent is the company which is always seeks to reduce expenses, tax expenses among them, to get higher profit. Therefore, the company attempt to use different ways to decline taxes (Vanesali and Kristanto, 2020). In general, the primary incentive of tax avoidance is maximizing profits, because taxes are considered a huge cost for firms and reducing them supposes a significant increase in profits and cash (Chen *et al.,* 2010). Tax regulations itself include loopholes such as offshore intellectual property havens, transfer pricing and cross-border dividend capture, among others that could be used opportunistically by companies to avoid taxes (Bauweraerts and Vandernoot, 2013; Graham and Tucker, 2006). Despite widespread public disapproval of these behaviours, tax avoidance is difficult to prevent (Kraft, 2014; Zeng, 2019). The justification is that companies could see tax avoidance as a reaction to the restrictions on freedom that tax laws impose (Kirchler, 1999). Even if the economic outcome of both strategies is comparable, tax avoidance practices by contributing to philanthropic activities may be seen as merely intelligent, but tax avoidance just to reduce tax payment could be seen as unethical and unlawful (Kirchler et al. 2001).

Although by manipulating the tax code, one might attempt to get a tax benefit via tax avoidance, this could entail fabricated, false transactions that primarily seek to achieve this benefit by adhering to the letter of the law but not its spirit, the majority of tax avoidance strategies simply do not work, and individuals who use them may wind up

having to pay much more in taxes and penalties than they originally intended to (Alvaredo et al., 2018).

The lawful means of tax avoidance are governed by the individual tax laws of each nation. Where these laws determine how individuals and corporations might reduce their tax obligations. However, the purpose of establishing tax avoidance strategies could be seen in a positive way such as stimulating companies' spending on various philanthropic endeavours and savings plans, which people often disregard (Chen et al., 2010; Irianto et al., 2017). In an effort to pay less income tax, companies consider investing more money in savings plans and taking large deductions from their taxable income (Mao, 2019; Zeng, 2019).

3.2 The relationship between ESG disclosure and accounting manipulation

Companies that engage in Corporate social responsibility (ESG) use a variety of measures to lessen the negative impact their operations have on society while increasing the positive impact they have. Today's businesses have a moral obligation to create corporate policies and procedures that go above and beyond what is required by the law and make a positive contribution to the common good. Proponents of ESG argue that businesses should adopt ESG practices so that stakeholders and society at large can have access to truthful financial reporting (Homayoun et al. 2015). This disclosure, on the other hand, will most likely serve as a response to a large number of managers that use ESG as an established instrument to deceive stakeholders and cover their manipulation. As a consequence of this, it is extremely important to investigate whether or not organizations that engage in ESG demonstrate ethical behaviour and share correct information. Earnings and cash flow are susceptible to manipulation by irrational management, who may do so with the objective of furthering their interests without regard to the shareholders and investors they claim to serve (Healy and Wahlen, 1999; Roychowdhury, 2006). It is at the managers' discretion to take measures that lower taxable income and increase profits. Therefore, this section discusses how real earnings management, tax avoidance, the cost of debt, and the cost of equity are related to ESG disclosure.

Companies that engage in Corporate Social Responsibility (ESG) employ various measures to mitigate the negative impacts of their operations on society while enhancing the positive ones. Today's businesses are increasingly recognizing a moral obligation to establish corporate policies and procedures that surpass legal requirements and contribute positively to the common good (Carroll, 1999; Porter and Kramer, 2011). Proponents of ESG argue that such practices enhance transparency in financial reporting, benefiting stakeholders and society at large (Homayoun et al., 2015; McGuire et al., 1988). However, scepticism remains due to concerns that some managers may exploit ESG as a tool for deception and manipulation, underscoring the importance of investigating the ethical behaviour and accuracy of information sharing among ESG-engaged organizations (Mallin, 2009; McWilliams and Siegel, 2001). Earnings and cash flow, susceptible to manipulation by unscrupulous management, are central to this discussion, as managers may seek to maximize their interests at the expense of shareholders and investors (Healy and Wahlen, 1999; Roychowdhury, 2006). This section explores the relationships between ESG disclosure, real earnings management, tax avoidance, the cost of debt, and the cost of equity.

3.2.1 Using ESG disclosure reduces accounting manipulation

According to stakeholder and ethical theories, firms with strong commitment to ESG disclosure are more prone to act in a responsible way when produce and report their financial statements (Chen et al., 2018; Kim et al., 2012). Likewise, firms that disclose their ESG disclosure practices have transparent and reliable financial reporting and are less likely to manipulate earnings. In this sense, a negative relationship between earnings management and ESG disclosure should be expected (Bozzolan et al., 2015; Cho and Chun, 2015). Some studies have found a negative relationship between ESG disclosure and earnings management supporting the idea that ESG-oriented companies have less incentives to participate in accrual and real earnings management, to this end these companies provide more transparent financial information than less ESG-oriented firms (Hong and Andersen, 2011; Kim et al., 2012). The reason why ESG-oriented companies are less probably to participate in accrual and real earnings management is possibly related

to managers' ethical concerns that motivate to produce high-quality financial statements (Litt et al., 2014; Scholtens and Kang, 2013). In addition, ESG disclosure firms are less presumably to engage in real earnings management because this policy supposes to lose the company competitiveness in the future (Cohen and Zarowin, 2010). This position is clearer if real earnings management is considered over accrual earnings management (Cohen et al., 2008; Durnev et al., 2017).

There are two primary reasons why firms engage in ESG disclosure activities in regard to their financial reporting (Gerged et al. 2020). The first reason is to demonstrate that the companies are responsible members of society by issuing ESG disclosure reports. This implies that ESG reporting and deceptive financial reporting are negatively related (Suyono and Farooque, 2018). The reason for this is that companies that prioritize ESG disclosure are unlikely to resort to manipulative financial tactics that could damage their reputation in the long run. Moreover, these companies place high importance on maintaining positive relationships with their diverse group of stakeholders (Mohmed et al, 2020, Kim et al, 2012, Pyo and Lee, 2013).

According with stakeholder theory and related with agency theory (Hill and Jones, 1992) managers should take into account the interests of all stakeholders and ESG disclosure mitigates agency problems through reducing information asymmetry between managers and shareholders, that are main stakeholders, increasing the volume, transparency and reliability of information, including financial reporting (Wang et al., 2016).

In addition, corporations with a strong commitment to ESG disclosure may be more likely to report their ESG activities openly and pay their fair share of taxes, according to an alternate viewpoint. It has been explored that ESG activities and not the readability of disclosure established that firms that employed tax avoidance exhibited poor overall ESG performance (Hoi et al., 2013). Accordingly, this discrepancy may be a reflection of a company's culture and its commitment to ESG, with a stronger commitment to ESG showing companies' willingness to pay their fair share of taxes (Kim et al., 2012; Lee, 2017).

Hence, following stakeholder approach, companies with strong ESG disclosure may be less likely to be involved in tax avoidance practices due to concerns about maintaining a positive reputation and upholding ethical standards. Also, companies that share more information about their ESG, for instance, may be less likely to take use of tax loopholes, (Lanis and Richardson, 2012). These companies may recognize that tax avoidance can be perceived as unethical and may damage their reputation with stakeholders such as customers, employees, and investors (Lenz, 2020). As a result, they may be more inclined to comply with tax laws and pay their fair share of taxes, even if it means potentially paying more in taxes than they would through tax avoidance strategies (Kirchler, and Wahl,2010). Also, companies with high levels of ESG disclosure may be more transparent about their tax practices, which can reduce the risk of negative consequences such as fines from regulatory bodies or reputational harm (Xu et al, 2022). In addition, companies that are transparent about their tax practices can demonstrate to stakeholders that they are operating ethically and observing the relevant legal provisions and regulations. This can help to build trust and maintain a positive reputation (Davis et al. 2016, Landry et al 2013; Lanis and Richardson, 2013).

3.2.2 ESG disclosure increases accounting manipulation practices

Although ESG disclosure is advantageous to businesses and their stakeholders, there is concern that it may be used for more opportunistic purposes, such as concealing earnings management. Managers may employ earnings management, as a method of influencing financial reports, to accomplish a variety of aims. Since it does not correctly reflect the company's genuine worth, it is widely perceived negatively (Al-Haddad and Whittington, 2019). There is cause for concern because some research indicates that earnings management strategies and ESG reporting are positively associated, suggesting that managers may be using their excellent reputation from ESG disclosure to cover up their improper financial reporting practices (Liu and Lee, 2019).

While ESG initiatives are often held up as evidence of a company's dedication to social responsibility, they may not necessarily be driven by altruism. Some managers may exploit ESG reporting for their own personal interests (Mohmed et al., 2020). It is possible

to argue the use of the ESG disclosure from a managerial opportunism perspective. So managers who manipulate earnings may strategically use ESG disclosure information to conceal stakeholders and hide their manipulation (Chun et al., 2012). Knowing that earnings management occurs by using judgment in accounting transaction to reflect better than actual performance to mislead stakeholder (Healy and Wahlen, 1999; Roychowdhury, 2006). Earnings management adopts different ways: accrual-based earnings management (Chun et al., 2012; Graham et al., 2005), classification and shifting and real earnings management or cash flow manipulation through price discounts and lenient credit terms, reducing discretionary expenditures, or by overproduction to reduce fixed costs per unit (McVay, 2006; Phillips et al., 2003). Under the agency theory perspective managers may prioritize their own interests over those of the owners due to differences in knowledge and priorities. This can result in a situation where ESG disclosure is used as a tool for earnings management, ultimately benefiting the managers at the expense of the owners. (Prior et al., 2008). Although managers frequently utilize ESG disclosure reporting as a means of self-interest and as a cover for accounting manipulation (Hemingway and Maclagan, 2004; Martnez-Ferrero et al. 2016), some earnings management practices can be used for the sake of stakeholders, in a way that goes a long with ESG strategies such as lengthening of payment terms as a criterion that seeks to meet customers' financial demands, in addition to shortening of payment terms as a criterion that seeks to favour suppliers. In spite of considering these practices as earnings management but they do not contradict with ESG endeavours.

The other type of manipulation is tax avoidance. It is possible that managers could utilize ESG's beneficial effects to cover up their pursuit of private benefits and tax avoidance through the organization (Desai and Dharmapala, 2006; Wilson, 2009). When a company has the incentive to participate in questionable actions like tax avoidance, ESG reporting is established as a means to manage the organization's reputational risk (Bebbington et al., 2008; Lanis and Richardson, 2013). According to the legitimacy view of ESG, a company can look out for its investors' best interests by maintaining a good reputation in the eyes of its stakeholders through its ESG disclosure (Hoi et al., 2013). Businesses may control ESG to protect themselves from legal repercussions of tax avoidance strategies (Hoi et al., 2013).

Furthermore, tax avoidance is a high-risk endeavour that results in substantial expenses for companies like public and government scrutiny that can be detrimental to their reputations. Business risk can be mitigated by ESG initiatives, as ESG disclosure, as well as promises to act responsibly, can help businesses to protect their reputations from risks. In such circumstances, the ESG disclosure may simply be utilized to satisfy crucial external expectations rather than allowing stakeholders to verify management's adherence to these pledges they often boost ESG disclosure to hide tax avoidance methods or to reap the benefits of ESG reporting (Hoi et al., 2013; Lin et al., 2017).

However, it is possible to use tax practices in an ethical way that serve ESG objectives. Because the state allows businesses to deduct some investments and expenses that are associated with their ESG policies, there is a possibility that tax practices could have a positive relationship to ESG disclosure (Lanis and Richardson, 2015; Stephenson and Vracheva, 2015). This possibility is raised as a result of the ability granted by the state to firms to deduct such investments and expenses. Through philanthropic activities and other investments that society or community demand, businesses can directly address society's needs (Arco-Castro et al., 2020). Companies can allocate resources to philanthropy, sponsorship, or investments that the State considers among its objectives, such as those related to the Sustainable Development Goals (SDGs), which qualify for tax deductions and are incorporated into their ESG strategy.

3.2.3 ESG disclosure and cost of financing relationship and the moderating effect of earnings management

Given that riskier businesses typically have higher costs of debt, the cost of debt metric can also give investors insight into how risky a company is in comparison to others, then according to the legitimacy theory stakeholders should appreciate companies that are committed to ESG reporting, and among the most important of these effects that concern companies is the cost of financing, which is related to investors and creditors, and they should probably reduce the cost of financing (cost of debt and cost of equity) for companies committed to ESG disclosure (El Ghoul et al., 2011).

Regarding to the cost of debt it is imperative for firms to take into consideration legitimize itself in the eyes of various stakeholders such as creditors (Erragragui, 2018), legitimacy theory focuses on giving businesses a competitive advantage over counterparts who do not pay attention to stakeholders (Deegan et al., 2002). As ESG disclosure is essential for businesses to win the trust of stakeholders and the funding they require to operate (Deegan et al., 2002). It has been argued that companies with multiple environmental issues are charged far higher interest rates on loans (Chava, 2011). Accordingly, stronger ESG should be linked to a lower cost of debt because of increased access to finance through the capital markets.

In regard to the cost of equity, having an understanding of a firm's cost of equity is important for both investors and the company itself. When deciding on voluntary disclosure, financial managers take into account the impact that it will have on the cost of equity (Graham et al., 2005). The cost of equity is important for investors to understand because it serves as a proxy for the opportunity cost of various investing strategies. There are two sorts of investors: long-term investors and short-term investors. Long-term investors consider sustainability and value creation when making investments, and they want more information to be given. In order to reap any potential long-term financial benefits, companies must adopt a sustainable development mindset in their operations and actively promote ESG disclosure (Yeh et al., 2020), because information asymmetry is reduced and the cost of equity is lowered as a result of good corporate governance and strong disclosure policies regarding environmental and social issues (Hail and Leuz, 2006). However, there is a different group of investors who are only interested in short-term gains. These investors are less likely to consider sustainability and ESG disclosure when making investment decisions. Hence, they may see ESG investment negatively and drive up the cost of equity.

If ESG influences how investors and creditors view a company's risk, socially responsible companies should pay less for equity financing (El Ghoul et al., 2011). Improved corporate governance and transparency have been shown to lower a company's cost of equity and cost of debt by lowering concerns about agency costs and information asymmetry (Hail, 2002; Hail and Leuz, 2006; Chen et al., 2009; Lopatta et al., 2016).

Companies that are transparent about their ESG practices may be seen as more trustworthy and responsible, leading to lower financing costs. Hence, ESG disclosure can provide insight into a company's values, operations, and impact on stakeholders, all of which can be important considerations for creditors and investors when evaluating the risk associated with lending to a company or investing in the company (Xu et al., 2022).

However, when management engages in accounting manipulating practices the financial statement of a company otherwise referred to as real earnings management can to present a sense of good financial performance and can have serious ramifications on the association between ESG disclosure and financing cost (cost of debt and cost of equity). One way in which real earnings management can affect this relationship is by making it more challenging for investors and creditors to accurately assess a company's creditworthiness (Prevost et al., 2008). If a company's financial statements are not a reliable representation of its financial performance, it can be challenging for creditors and investors to determine the level of risk associated with lending and investing in the company. As a result, creditors might demand a greater interest rate to make up for the increased risk, which would raise the cost of borrowing for the business. Accordingly, if a company is not transparent about its accounting practices, it may be perceived as less trustworthy and therefore a less desirable borrower (Syono and Farooque, 2018). This lack of trust can lead creditors to be more hesitant to lend to the company, resulting in higher borrowing costs. In addition, real earnings management can also affect the cost of equity by increasing perceived risk. If investors believe that a firm is engaging in real earnings management to manipulate its financial performance, they may view the firm as riskier and demand a higher return on their investment. This can result in a higher cost of equity for the firm (Yu et al, 2018).

In a nutshell, real earnings management can have a negative impact on the relationship between ESG disclosure and the cost of debt by increasing the risk associated with lending to a company and eroding trust in the company (Cooper and Uzun. 2015). On the other hand, transparency around ESG practices can lead to lower borrowing costs by demonstrating a company's trustworthiness and responsibility. If a corporation is found to be managing its earnings, it may suffer legal repercussions, which could also increase the cost of financing. In addition, due to the increased risk involved with investing in a firm

that is having legal problems, investors will be less willing to invest in such firm (Yu et al., 2018). Largely, real earnings management can hurt the relationship between ESG and the cost of financing, as it can lead to a negative perception of the company and increase the risk associated to investments or loans (Hamrouni et al., 2020; Yu et al., 2018).

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4. Chapter Four: environmental, Social and Governance (ESG) disclosure and its effect in real earnings management (REM): Moral commitment and impact on supply chain

This chapter, related to our objectives, sets forth three objectives: firstly, to ascertain whether ESG disclosure reduces REM practices, thus reflecting transparent corporate conduct (objective 1); secondly, to scrutinize the moderating effects of financial indicators on the relationship between ESG disclosure and REM (objective 2),and thirdly to examine how ESG disclosure affects management policies that may confer financial benefits to stakeholders (objective 3).

4.1 Introduction

ESG information disclosure has been studied in depth in relation to social and environmental factors. The possible interactions between ESG information disclosure and financial policies, however, have been overlooked. From this financial perspective, ESG disclosure could reduce the earnings management (Chih *et al.*, 2008; Martinez-Martinez *et al.*, 2021), improve the reliability of management, and promote financial initiatives that favour stakeholders. The proposal is that ESG disclosure has a moral or ethical dimension (Mitnick et al., 2023) that should affect the financial behaviour of companies and should be considered. ESG financial measures, however, have received relatively little attention by companies and have been largely overlooked by institutions both in setting standards for assessing and controlling for the effect of earnings management practices and in analysing the effect of financial practices to favour stakeholders. These measures would be highly valued by stakeholders because liquidity and solvency are priorities to establish the financial sustainability of firms. The relationship between ESG and financial policies can follow two opposing positions. ESG disclosure may reveal specific financial policies that favour stakeholders or be used to mislead stakeholders. This research of this chapter seeks to distinguish whether ESG disclosure reduces actual earnings management, drives financial practices through operating cash flows, working capital and discretionary expenses to favour stakeholders, or, conversely, is used to mislead stakeholders.

ESG disclosure is a tool for users to evaluate companies' social and environmental practices and how they are integrated into business strategies (Arco-Castro *et al.*, 2020; Burke and Clark, 2016). The improvement in the quality of reporting should allow stakeholders to stay fully informed of a company's financial and non-financial

performance. The disclosure of ESG information allows for a more comprehensive view of a company and provides a perspective from which to assess the reliability of financial reporting (Boiral *et al.,* 2019).

Thus, the first objective of this chapter is to analyse how ESG disclosure is related to the reduction of real earnings management practices. The second objective is to study the relationship between ESG disclosure and management policies that could introduce financial advantages for stakeholders. The third objective is to analyse the moderating effect of some financial indicators on the relationship between ESG disclosure and real earnings management to the extent that the company's financial situation affects the ESG policies followed by the company and their use.

With respect to the first objective, firms that apply and disclose ESG information should behave appropriately and provide transparent and reliable information (Gargouri *et al*., 2010). From this perspective, it is possible that information disclosure could be used by managers as a mechanism to deceive stakeholders and hide their real earnings management practices (Muttakin *et al*., 2015; Scholtens and Kang, 2013), presenting a better image to the information users. Managers could affect real earnings (Lee, 2012), causing abnormal operating cash flow (AOCF) (Chun *et al*., 2012; Cohen *et al*., 2008), acting on working capital by accelerating customer collection or delaying payments to suppliers, and on profits by increasing price discounts, overproduction, or variation in discretionary expenses (He *et al*., 2021; Lee, 2012; Owoo, 2017; Roychowdhury, 2006). We measure real earnings management through abnormal operating cash flow. We prefer real earnings management to accrual earnings management because, firstly, it allows more aspects to be considered that can be managed and, secondly, because cash flow is now a pre-eminent analytical tool in decision making.

Real earnings management could be harmful to firm value and stakeholder perceptions, which may damage the relationship between firms and stakeholders and affect firms' image and reputation (Cohen and Zarowin, 2010; DesJardine and Durand, 2020). These misleading practices should disappear when there is a strong ESG disclosure based on an ethical view of ESG (Martinez-Martinez *et al*., 2021; Mitnick et al., 2023).

The second objective of this chapter is to analyse the incidence of ESG disclosure in various management practices. Firms could apply financial policies to favour stakeholders that affect operating cash flow, such as delaying collections for customers or accelerating payments to suppliers. Financial advantages could be highly valued by stakeholders and strengthening ties between them and firms. Financial advantages can play an important role in the sustainability of the supply chain.

Finally, we analyse the possible moderating role of some financial indicators on the relationship between ESG disclosure and real earnings management. Indicators like profitability (Lee, 2012) and capital market valuation (Hsieh *et al*., 2019; Huang and Sun, 2017) could moderate companies' financial practices (Ross, 1977), strengthening, weakening, or even modifying the relationship between the ESG disclosure and real earnings management.

Our study contributes to the literature by providing evidence consistent with the use of real earnings management. Firstly, the results show that ESG disclosure reduces real earnings management. Secondly, the study highlights the use of real earnings management, which has been scarcely studied. Previous researchers have mainly studied accrued income management (Martinez-Martinez *et al*., 2021). This chapter focuses on real earnings management through abnormal operating cash flow (Chun *et al.,* 2012; Graham *et al.,* 2005), which allows for the analysis of working capital policies (Akono and Nwaeze, 2018) rather than simply the effect of incomes and expenses. The study of working capital policies contributes to the literature related to ESG policies that could favour key stakeholders. The results show that the working capital policies of firms only favour stakeholders in the case of suppliers.

Following the formal adoption of sustainable development goals (SDGs) at the 2015 UN conference, the International Federation of Accountants (IFAC) recognised eight goals that the accounting profession can pursue to contribute to the agenda of sustainable development (IFAC, 2016). Specifically, real earnings management practices are focused on achieving short-term results, thus undermining long-term value creation and consequently sustainability (DesJardine and Durand, 2020; Gras-Gil *et al*., 2016). The

findings could be critical for regulators and standard-setters in limiting some real earnings management practices that mislead stakeholders, improving transparency and information quality. In addition, we propose financial elements to be included in the ESG economic responsibility disclosure that favour stakeholders who are not normally considered in the economic dimension of ESG – customers and suppliers – and that are important in the value chain. The type of policy could be effective when a company wants to involve the supply chain in its ESG practices. Some legal requirements are related to suppliers' payment terms, but further progress is needed on financial effects related to stakeholders.

This chapter is organised as follows: section 2 discusses the related literature and proposes the hypotheses. Section 3, containing the sample selection, the models proposed and variables. The results are shown in section 4, and discussion and findings are discussed in section 5. The main conclusions will be included y the final section of the thesis.

4.2 Literature review

4.2.1. ESG disclosure and real earnings management

ESG disclosure should be considered a moral commitment (Mitnick *et al*., 2023) that affects companies' financial behaviour. We propose that firms with a strong ESG disclosure are more prone to acting in responsibly when producing and reporting their financial statements and non-financial information (Chen *et al*., 2018; Kim *et al*., 2012). Following the stakeholder-agency theory (Freeman, 1984; Hill and Jones, 1992), ESG disclosure mitigates agency problems by reducing information asymmetry between managers and stakeholders, as well as by increasing the volume, transparency, and reliability of information, including financial reporting (Wang *et al*., 2016). It is less probable that ESG-oriented companies will participate in earnings management, and they are more likely to produce high-quality financial and non-financial information (Litt *et al*., 2014). Therefore, a negative relationship between real earnings management and ESG disclosure should be expected (Alsaadi *et al*., 2017; Bozzolan *et al*., 2015; Cho and Chun, 2015; García-Sánchez and García-Meca, 2017; Martínez-Ferrero *et al*., 2016). Following this theory, the aim is to reach the point where the demands of stakeholders and managers

converge and their interest are aligned (Hill and Jones, 1992; Kock *et al*., 2011). Managers committed to a high level of ESG disclosure should take into account the interests of stakeholders and implement and disclose ESG practices to compensate or enable stakeholders to enforce the terms of the implicit contract that ties firms and stakeholders together (Kock *et al*., 2011; Prior *et al*., 2008).

The possible use of ESG disclosure as a means of improving the image of a company or legitimating or counteracting the effect of bad actions justifies the relevance of revising the relationship between ESG disclosure and the possibly unethical practices of earnings management. This supposes an opportunistic point of view (Jadiyappa *et al*., 2021; Muttakin *et al*., 2015). ESG disclosure may be used by firms to mislead stakeholders (Chih *et al*., 2008). Earnings management occurs by using judgment in transactions to reflect better-than-actual performance (Healy and Wahlen, 1999; Roychowdhury, 2006). Firms could exercise discretion over accounting figures (Watts and Zimmerman, 1978) – for example, through overproduction practices, the manipulation of inventory information, and the discretionary accounting of expenses (Amoah *et al.,* 2017; Nagar and Raithatha, 2016; Roychowdhury, 2006). Firms could disclose socially responsible policies to cover up other business misconduct by diverting the attention of stakeholders and thereby obtaining their support (Hemingway and Maclagan, 2004) or by implementing self-entrenchment strategies (Prior *et al*., 2008). In this regard, a positive relationship should be identified between earnings management and ESG disclosure (Gargouri *et al*., 2010; Muttakin *et al*., 2015).

On the other hand, real earnings management practices could be used as a tool to favour stakeholders (Gras-Gil *et al*., 2016; Grougiou *et al*., 2014). The firms that disclose their ESG practices and have transparent and reliable financial reporting should be less likely to harm stakeholders (Hong and Andersen, 2011; Kim *et al*., 2012). Thus, there are real earnings management practices aimed at considering stakeholders' needs and seeking situations where the demands of different stakeholders are balanced. ESG disclosure and related improvements in firm performance can generate spillover effects, including financial ones, for employees and shareholders, as well as for the supply chain (Hsu *et al.,* 2022). These improved relationships can lead to financial facilities for suppliers and

customers that have generally not been considered previously. In this respect, policies concerning collections from customers or payments to suppliers should be considered – for example, by extending collection periods for the former and shortening payment periods for the latter (Lee, 2012; Owoo, 2017; Roychowdhury, 2006).

The economic viability of an entity depends decisively on the existence of strong relationships with customers and suppliers (Torugsa *et al.,* 2013). It is necessary to manage problems that may occur in interactions with customers and suppliers (European Commission, 2003) and promote commitments that ensure the success of the relationships (Kannabiran, 2009). Sometimes the supply chain is remunerated through bonuses (de Jong and van der Meer, 2017) or trade credits (Zhang *et al.,* 2014); this could also happen through facilities in collection and payment times, an issue that has not to date been analysed. Firms that want to favour customers and suppliers can use commercial policies to do so. In this sense, a positive relationship could be expected between ESG disclosure and the lengthening of the collection period from customers or the shortening of the payment period to suppliers. By contrast, a negative relationship between ESG and accelerating receivable collections or delaying payments to suppliers could be related to real earnings management focused on reducing working capital to create a better image of the company's solvency.

Following stakeholder agency theory, the ESG disclosure will negatively affect real earnings management and the practices that are not financially favourable to stakeholders. Accordingly, a negative relationship between ESG disclosure and the various components of real earnings management that affect profit-and-loss statements or working capital is expected. We thus propose the following hypotheses:

H1: ESG disclosure is negatively related to abnormal operating cash flow.

H1a: ESG disclosure is negatively related to accelerating receivable collections.

H1b: ESG disclosure is negatively related to delaying payment to suppliers.

H1c: ESG disclosure is negatively related to abnormal production.

H1d: ESG disclosure is negatively related to abnormal discretionary expenses.

4.2.2. The moderating effect of profitability level on ESG disclosure and real earnings management

Performance can be measured in different ways, with profitability a common indicator (Gill *et al*., 2013; Nwude *et al*., 2021). Working capital is related to profitability (Sensini, 2020; Singh *et al.,* 2017), and a reduction of working capital usually means an increase in profitability. Thus, in the context of management earnings in the short term, both concepts should usually be analysed. Earnings management can increase profits and reduce working capital. There is a relationship between earnings management and profitability that justifies its study (Adeyemi and Fagbemi, 2010; Bassiouny, 2016).

Earnings management related to an increase in profits has its focus in accounting manipulation (Cohen and Zarowin, 2010; Gill *et al*., 2013; Khuong *et al*., 2019). There are situations in which the profitability of firms has been positively associated with real earnings management (Dechow *et al*., 1995; Miko and Kamardin, 2016). Managers can use real earnings management to show stability in earnings to meet analyst predictions (Iatridis and Kadorinis, 2009), which may lead to increased investor confidence and present a better image to lenders, improving the possibility of obtaining refinancing or new funds from financial institutions (Watts and Zimmerman, 1990). The stability of profits also has a significant influence on stakeholders' confidence in the firm (Dakhlallh *et al*., 2020).

In other contexts, however, the relationship between profitability and real earnings management could be negative. If firms achieve good finances, managers do not have many incentives to manipulate their financial statements (Cho and Chun, 2015; Guo *et al*., 2013; Huang and Sun, 2017; Yousf *et al*., 2018). In this line of thought, in a context of high profitability, managers will have less desire to manipulate their financial statements (Guo *et al*., 2013; Iatridis and Kadorinis, 2009).

Another possibility is that ESG commitment responds to a moral decision (Mitnick et al., 2023) that affects the financial behaviour of companies. In the context of high profitability, a positive relationship between profitability and ESG disclosure should be

found (López *et al*., 2007). The effect of financial decisions on ESG disclosure has been growing over time (Becchetti *et al*., 2012). It is assumed that if the company generates more resources, those resources can be allocated to ESG objectives. In this sense, profitability and ESG disclosure go together. The aim is to satisfy the informational needs and interests of stakeholders in a reliable way in order to improve their trust in the company and decrease the asymmetry of information. The positive relationship between profitability and ESG is expected to reinforce the negative relationship between ESG and earnings management. High profitability lets firms apply more resources to ESG and boost ESG disclosure, reinforcing the negative relationship between ESG and real earnings management (Hsu and Chen, 2015). The expected moderating effect of profitability on ESG disclosure enhances the expected negative impact on real earnings management.

If a moral or ethical dimension of ESG disclosure is considered (Mitnick et al., 2023), the financial behaviour of companies to favour stakeholders could be reinforced as a way of distributing the added value generated by the companies. Companies would allocate part of their profits to benefit stakeholders, including financially. Economic policies to favour stakeholders, such as product improvement, the establishment of long-term relationships, and innovation possibilities have been extensively studied. Financial measures to favour stakeholders, however, have been scarcely dealt with, even though they are a decisive factor in ensuring business continuity. Firms could try to favour customers and suppliers financially. Profitability could negatively moderate the relationship between ESG disclosure and accelerating collection or delaying payment to suppliers – practices that are not favourable to customers and suppliers. Besides, the moderating role of profitability in the relationship between ESG and indicators more directly related to inventories and discretionary expenses related to accrual manipulation is also expected to be negative. Accordingly, we propose the following hypotheses:

H2: Profitability negatively moderates the effect of ESG disclosure on abnormal operating cash flow.

> *H2a: Profitability negatively moderates the effect of ESG disclosure on accelerating receivable collections.*

H2b: Profitability negatively moderates the effect of ESG disclosure on delaying payments.

H2c: Profitability negatively moderates the effect of ESG disclosure on abnormal production.

H2d: Profitability negatively moderates the effect of ESG disclosure on discretionary expenses.

4.2.3. The moderating effect of capital market value on ESG disclosure and real earnings management

Firms under greater equity market pressures are usually focused on current earnings and the satisfaction of short-term performance objectives (Chy and Hope, 2021). This reality can increase the pressure to manage earnings in order to meet the expectations of shareholders and analysts (Iatridis and Kadorinis, 2009) and can destroy real long-term value (Jensen, 2005).

Managers of overvalued firms resist market correction of the overvalued stocks and try to extend overvaluation through earnings management (Gunny, 2010; Hsieh *et al*., 2019; Yousf *et al*., 2018). Managers of firms with high growth have more incentives to manipulate earnings in order to reach their earnings targets (Skinner and Sloan, 2002). In addition, managers of overvalued firms are enticed to maintain the perceived value of the firms because when the level of overvaluation increases, the magnitude of earnings management required to hold the perceived price will increase as well (Badertscher, 2011). Specifically, the most highly overvalued firms are motivated to meet or exceed the market's expectations; thus, they are presumed to engage in more aggressive earnings management than firms that reveal less overvaluation (Badertscher, 2011). Operating decisions may boost firm value to the extent that it fulfils market expectations. So, the relationship between capital markets and real earnings management is expected to be positive.

However, real earnings management can have several adverse effects that can impact the long-term sustainability of the company, such as by affecting long-term value

creation and the company's image (Gras-Gil *et al*., 2016). In a context of caring for stakeholders, practices aimed at misleading them should disappear (Martinez-Martinez *et al*., 2021). The information disclosed should meet stakeholders' needs for transparency and accountability (Charles *et al*., 2010; Kim *et al*., 2012). Sustainability in the long term (Zerbini, 2017) and the management's consideration of the stakeholders' demands (Freeman, 1983) require transparency and reliability (Boiral *et al.*, 2019). Sustainability is linked to aligning the interests of managers and stakeholders (Hill and Jones, 1992; Kock *et al*., 2011), but shareholders and stakeholders can have competing interests. The possible commitment of shareholders to ESG would facilitate convergence between managers and stakeholders (Kock *et al*., 2011), but capital market functioning does not appear to support such commitment.

There are two objectives that may be contradictory. On the one hand, social and environmental objectives require a long-term vision; on the other hand, the capital market, which tends to have a short-term vision, rewards a higher capitalization value. The introduction of ESG should have an impact on improving business practices, including the avoidance of earnings management. However, increasing market value may require earnings management. If we assume that market value is a priority for companies, the expected effect of capital markets on ESG disclosure is to counteract the impact of ESG on real earnings management (Ciampi, 2018). In this case, ESG disclosure would be used to legitimize the activities of companies, including earnings management. Companies with high market value will seek to extend this value and could use ESG disclosure to gain more confidence from stakeholders and legitimate their activities. It is expected that market value positively moderates the relationship between ESG and real earnings management. This also responds to the requirements and demands of short-term investors or investors not committed to sustainability criteria (Kordsachia *et al*., 2022), which are usually present in capital markets. Real earnings management is usually linked to short-term objectives providing gains, but it may cause a loss of competitiveness in the future (Cohen and Zarowin, 2010).

According to stakeholder-agency theory (Hill and Jones, 1992), ESG disclosure should mitigate agency problems by reducing information asymmetry between managers

and stakeholders. But companies can prioritize the demands of the capital market by adopting practices that enable a better financial image of the company. This implies the adoption of real earnings management and the different policies on which it is based, such as accelerating collections, delaying payments to suppliers and manipulating inventories and discretionary expenses (García-Sánchez *et al*., 2020; He *et al*., 2021; Huang and Sun, 2017; Luo, 2019). The moderating effect of the capital market value of the firm on ESG disclosure is expected to be positive in regard to the different forms of real earnings management. We thus propose the following hypotheses:

H3: Firm market value positively moderates the impact of ESG disclosure on abnormal operating cash flow.

H3a: Firm market value positively moderates the impact of ESG disclosure on accelerating receivable collections.
H3b: Firm market value positively moderates the impact of ESG disclosure on delaying payment to suppliers.
H3c: Firm market value positively moderates the impact of ESG disclosure on abnormal production.
H3d: Firm market value positively moderates the impact of ESG disclosure on discretionary expenses.

4.3 Empirical research

4.3.1. Sample, database and method

The sample consisted of 500 European firms during the period 2010–2019. We selected this period specifically in order to analyse the period following the global economic crisis, when there was a certain stability in business and when disclosures of environmental and social issues were more strongly restated and before the COVID 19 pandemic that profoundly affected business activity. Our initial sample included the top 500 companies with higher operating cash flow. We selected operating cash flow as the sample selection criterion because it is a better predictor of future cash flow performance than accrual earnings (Healy and Wahlen, 1999). Benefits are shareholder-centric and short-lived but suppose a mid-to-long-term decrease in operating cash flow (DesJardine

and Durand, 2020). Companies with higher operating cash flow are more likely to have abnormal operating cash flow (Hsieh *et al*., 2019), which is the object of this study. In addition, the research is focused on variables related to changes in working capital that affect operating cash flow but have a mute effect on the weight of accrual earnings (Akono and Nwaeze, 2018). We excluded financial or insurance firms, firms that did not follow IFRS reporting and firms that did not provide data on financial and ESG reporting for at least five years within the period of 2010–2019 considered in our study. After refining the sample, we were left with 177 firms and 1,659 observations.

We used two databases: Refinitive Eikon to obtain ESG disclosure variable, industry and financial data (operating cash flow, production costs, total assets, inventories, sales, receivable collection days, payable payment days) and ORBIS to obtain the other financial data (leverage, ROA and market to book ratio).

We applied panel data regression models with fixed effects. The Durbin–Wu–Hausman test reveals that the fixed effect is better in our models (the Prob>chi^2 is less than 0.05, so it can be concluded that there is no correlation between the individual effects and the explanatory variables, which indicates that the fixed estimator should be used). We tested problems of heteroscedasticity, autocorrelation and endogeneity through the Wald test, the Wooldridge test and the Hausman test, respectively. The Wald and Wooldridge tests yielded a p value of less than 0.05, so we cannot accept the null hypothesis of homoscedasticity and no autocorrelation. Meanwhile, the p value > 0.05 in the Hausman test confirms the exogeneity of the model. Endogeneity is caused by a possible bias in the choice of the sample and the possibility that the variables affect each other (Garcia-Castro *et al.*, 2010; Liu *et al.*, 2021). With respect to endogeneity, companies that disclose ESG information differ from those that do not disclose (Liu *et al.*, 2021). Previous studies show that there are endogeneity problems between ESG practices and real earnings management (Grougiou *et al.*, 2014). In our case, the sampling bias is avoided by including observable control variables, which allows us to better estimate ESG disclosure by taking into account different financial indicators (Garcia-Castro *et al.*, 2010). In addition, we applied the Mundlak test, which is valid for the fixed sample (Garcia-Castro *et al.*, 2010). This

endogeneity test yields a p value > 0.05; therefore, we can accept the null hypothesis of no endogeneity.

In order to deal with the above results, we used feasible generalised least squares, which allows for estimation in the presence of autocorrelation and heteroscedasticity. Additionally, these results were checked with a robustness test. We used Driscoll and Kraay's standard errors estimator for the robustness check (Hoechle, 2007; Molla *et al.*, 2021). Similar results to those obtained with the GLS estimator were obtained from the analysis. Therefore, we can conclude that the results of the study are robust (Molla *et al.*, 2021).

4.3.2. Research models and variables

Our research has presented different models to measure the incidence of ESG disclosure on different variables that measure real earnings management. The moderating effect of financial indicators has been introduced by multiplying the moderating variables (ROA, MTB) by the moderated variable (ESG disclosure). The following models are proposed:

(Model 1) $ACFO_{it} = a_{it} + B_1 ESG_{it} + B_2\ ESG*ROA_{it} + B_3\ ESG*MTB_{it} + B_4\ ROA_{it} + B_5\ MTB_{it} + B_6\ LEV + B_7 SIZE_{it} + B_8 Industry + u_{it}$

(Model 2) $AR_{it} = a_{it} + B_1 ESG_{it} + B_2\ ESG*ROA_{it} + B_3\ ESG*MTB_{it} + B_4\ ROA_{it} + B_5\ MTB_{it} + B_6\ LEV + B_7 SIZE_{it} + B_8 Industry + u_{it}$

(Model 3) $AP_{it} = a_{it} + B_1 ESG_{it} + B_2\ ESG*ROA_{it} + B_3\ ESG*MTB_{it} + B_4\ ROA_{it} + B_5\ MTB_{it} + B_6\ LEV + B_7 SIZE_{it} + B_8 Industry + u_{it}$

(Model 4) $APROD_{it} = a_{it} + B_1 ESG_{it} + B_2\ ESG*ROA_{it} + B_3\ ESG*MTB_{it} + B_4\ ROA_{it} + B_5\ MTB_{it} + B_6\ LEV + B_7 SIZE_{it} + B_8 Industry + u_{it}$

(Model 5) $ADISEXP_{it} = a_{it} + B_1 ESG_{it} + B_2\ ESG*ROA_{it} + B_3\ ESG*MTB_{it} + B_4\ ROA_{it} + B_5\ MTB_{it} + B_6\ LEV + B_7 SIZE_{it} + B_8 Industry + u_{it}$

Where:

$ACFO_{it}$ represents abnormal operating cash flow of firm i at year t [residuals of (1a) equation].

AR_{it} represents accelerating receivable collections of firm i at year t [(4a) equation].

AP_{it} represents delaying payment to suppliers of firm i at year t [(5a) equation].

$APROD_{it}$ represents abnormal production cost of firm i at year t [residuals of (2a) equation].

$ADISEXP_{it}$ represents abnormal discretionary expenditures of firm i at year t [residuals of (3a) equation].

ESG_{it} represents the environmental, social and governance reporting rate of firm i at year t.

ROA_{it} represents return on assets of firm i at year t.

MTB_{it} represents the market to book ratio of firm i at year t.

LEV_{it} represents total debt/total assets of firm i at year t.

The practice of misclassifying items on cash flow statements is geared towards achieving a better financial position (Lee, 2012). Real earnings management is a deviation from normal practice prompted by a manager's intention to misinform stakeholders and show them that their expectations and financial reporting targets have been achieved in the normal operating course. Managers can make accrual estimates to withhold bad news (provisions, customers collection difficulties, clean up polluted production, among others (He *et al.*, 2021). Roychowdhury (2006) claims that managers can manipulate operating cash flow (CFO) through sales manipulation, overproduction (abnormal production cost) and discretionary expenditures. These real earnings practices assume abnormal operating cash flow (ACFO) and aim at altering earnings (Gunny, 2010). The most common valuation model used to measure ACFO is Dechow *et al*. (1998), which has been frequently used in previous studies (Amoah *et al*., 2017; Cho and Chun, 2015; Guo *et al*., 2012; He *et al.*, 2021; Nagar and Raithatha, 2016).

Following Roychowdhury (2006), three measures of real earnings management that affect cash flow were used to obtain the manipulation in cash flow. Following Dechow *et*

al. (1998), we calculated operating cash flow (CFO), production (PROD) and discretionary expenses (DISEXP) as a function of sales (s) and change in sales (Δs).

$$CFO_t/A_{t-1} = \alpha_0 + \alpha_1*(1/A_{t-1}) + \beta_1*(St/ A_{t-1}) + \beta_2*(\Delta S_t / A_{t-1}) + \varepsilon_t \quad (1a)$$

$$PROD_t/A_{t-1} = \alpha_0 + \alpha_1*(1/A_{t-1}) + \beta_1*(S_t/ A_{t-1}) + \beta_2*(\Delta S_t / A_{t-1}) + \beta_3*(\Delta S_{t-1} / A_{t-1}) + \varepsilon_t \quad (2a)$$

$$DISEXP_t/A_{t-1} = \alpha_0 + \alpha_1*(1/A_{t-1}) + \beta_1*(S_t/ A_{t-1}) + \beta_2*(\Delta S_t / A_{t-1}) + \varepsilon_t \quad (3a)$$

Where:

CFO_t/A_{t-1} represents cash flows from operating activities in year t scaled by total assets at year t−1 (1a).

$PROD_t/A_{t-1}$ represents firm i production costs in year t, calculated as ($COGS_{it} + \Delta Inv_{it}$), where COGS is cost of goods sold and Inv is change in inventory (2a).

$DISEXP_t/A_{t-1}$ represents discretionary expenses in year t (3a).

$(1/A_{t-1})$ represents intercept divided by total assets at year t−1 so that the cash flow from operating activities does not have a value of 0 when sales and sales lag are 0.

(S_t/A_{t-1}) represents net sales in year t divided by total assets at year t−1.

$(\Delta S_t /A_{t-1})$ represents the change in sales for firm i (sales in year t – sales in year t–1) divided by total assets at year t−1.

*(ΔSt-1 / At-1) represents the change in sales for firm i at year t−1 divided by total assets at year t−1.

The residuals of a regression in models (1a), (2a) and (3a) are regarded as AOCF, APROD and ADISEXP. In other words, there are differences between the actual and estimated normal (operating cash flow, production cost and discretionary expenses), which are represented by the coefficients from the estimated models.

We also go deep in measuring abnormal operating cash flow by using the collection of accelerating receivables and the delay of payment to suppliers as indicators of abnormal cash flow (Ebben and Johnson, 2011; Lee, 2012; Sisay and Nongmaithem, 2019).

Therefore, we calculate AR and AP as follows:

AR = - (Average Receivables Collection Days$_t$ - Average Receivables Collection Days$_{t-1}$) / Average Receivables Collection Days$_{t-1}$. (4a)

AP = (Average Payables Payment Days$_t$ - Average Payables Payment days$_{t-1}$) / Average Payables Payment days$_{t-1}$. (5a)

With regard to *independent variables* in all models, we have used ESG; measures from the environmental, social and governance reporting index (ESG reporting index) of the Refinitive Eikon database; and the effect of financial indicators on ESG disclosure and ACFO, such as return on assets (ROA) as a measure of profitability and market-to-book (MTB) as a measure of capital market value, were obtained from ORBIS database.

Finally, we selected some *control variables* that have been used in previous studies and considered the effect of these variables on ESG and ACFO. Relying on previous literature, we used leverage (LEV), measure as total debt/ total assets, to control that companies with higher debt are significantly associated with earnings management to conceal the potential failure to comply with contracts and meet the expectations of stakeholders (Alzoubi, 2017; Lazzem and Jilani, 2018), SIZE, which was measured by the natural logarithm of total assets (Bozzalan, 2015). Previous studies commonly used this variable as a determining factor of environmental, economic and social practices (Garde *et al*., 2013), and its use is common in the field of financial studies (López *et al*., 2007). There are two points of view regarding the relationship between the size of a firm and earnings management. The first view argues that larger firms are less likely to manipulate earnings because those firms usually have effective internal (Beasley *et al*., 2000) and external control (Gore *et al*., 2007), and regulators impose rigid disclosure requirements, which can deter these firms from conducting earnings management activities (Lee and Choi, 2002).

Finally, there are several studies that control INDUSTRY measures as a dummy variable if the firm is related to a sector in which economic activity is especially significant in terms of impact on the environment (e.g., oil, gas, transport, tourism, manufacturing, construction and food) (Garde *et al*., 2013; Sitanggang *et al*., 2019; Yousf *et al*., 2018).

Table 1 shows the variables and measures of the variables and the hypotheses in which they are proposed.

Table 1. Variables and measures

Variables	Measurement	Hypotheses
Abnormal operating cash flow (AOCF) – Model 1	Actual operating cash flow- normal operating cash flow that resulted from equation (1a)	H1, H2, H3
Accelerating receivable collection (AR) – Model 2	Accelerating receivable collection that resulted from equation (4a)	H1a, H2a, H3a
Delaying supplier payment (AP) – Model 3	Delaying supplier payment that resulted from equation (5a)	H1b, H2b, H3b
Abnormal production cost (APROD) – Model 4	Actual production cost- normal production cost that resulted from equation (2a)	H1c, H2c, H3c
Abnormal discretionary expenses (ADISEXP) – Model 5	Actual discretionary expenses-normal discretionary expenses that resulted from equation (3a)	H1d, H2d, H3d
Corporate social responsibility (ESG)	ESG disclosure score from 0 to 1	
Performance (ROA)	Return on assets	
Market to book ratio (MTB)	Total market value/ total book value	
Leverage (LEV)	Total debt/ total assets	
Size (SIZE)	Natural logarithm of total assets.	
Industry (INDUSTRY)	It is a dummy variable equal 1 the firm is relating to sector which economic activity are especially significant in terms of their impact on the environment and 0 otherwise.	

4.4 Results

Table 2 shows the descriptive statistics of the variables.

Table 2. Descriptive statistics of variables (n= 1659)

Variables	*Mean*	*S.D*	*Max*	*Min*
AOCF	-.70	.587	.7044371	-8.101
AR	-.0170	.1712	2.423	-1.284
AP	-.2887	.447	42.02	-1.716
APROD	.30	.0065	3.225	0
ADISEXP	.73	.4962	3.312	0
ESG	.72	.165	1	.0833
ROA	6.06	5.67	48.633	-21.52
MTB	2.80	4.027	45.384	-83.616
LEV	1.25	.611	113.72	0
SIZE	17.07	1.05	20.120	14.601
INDUSTRY	.57	.49		

According to the data in Table 2, the mean value of AOCF (-0.70), AR, AP, APROD and ADISEXP (-0.0170, -0.2887, 0.30 and 0.73, respectively) shows that there are differences between the actual and estimated normal. The mean value of ESG disclosure is 0.72. This value indicates that the level of disclosure of environmental, social and governance aspects is high. The mean of ROA is 6.06, which could be considered low, and MTB is 2.8, which could be considered high.

Table 3 shows the correlation coefficients among variables.

Table 3. Bivariate correlations between variables matrix

	AOCF	AR	AP	APROD	ADISEXP	ESG	ROA	MTB	**LEV**	SIZE	INDUS
AOCF	1										
AR	0.2748*	1									
AP	0.2274*	0.0560*	1								
APROD	-0.355***	0.1680*	-0.0384	1							
ADISEXP	-0.808***	- 0.3147*	-0.2275*	0.4714***	1						
ESG	-.0745***	0.0607*	0.0864*	0.0509	-0.0687	1					
ROA	-.1607***	-0.0068	0.0016	0.2854***	0.1390***	-.0518**	1				
MTB	-.1309***	-0.0068	0.0016	0.2096	0.1641*	.0098	.3940***	1			
LEV	.3347***	0.0024	0.0039	-0.195***	-0.333***	.0264	-.234***	-.0487**	1		
SIZE	.2033***	-0.0102	-0.0375	-0.223***	-0.2498*	.3819***	-.2585***	-.202***	0692***	1	
INDUS	0.0183	0.0312	0.0216	0.0468**	-0.0215*	0.0900***	0.1269***	0.0504**	0.0853***	-0.0729***	1

Several correlations of AOCF, AR and AP with the variables of the model are significant. These relationships will be analysed in the regression models. The relationship between different forms of possible real earnings management was significant. The relationships between working capital–related variables (AR, AP and APROD) were significant and positive, indicating that possible earnings management was focused on working capital. The relationship between ADISEXP, AP and AR were significant but negative, indicating that firms opted to manage working capital variables or expenses. So, the relationship between ADISEXP and APROD, both related to expenditures, was positive and significant.

Table 4 shows the results of the regression analysis for the models proposed.

Table 4. Results of the regression analysis

Independent variables	***Model 1 (AOCF)***	***Model 2 (AR)***	***Model 3 (AP)***	***Model 4 (APROD)***	***Model 5 (ADISEXP)***
ESG	-0.3107	.0295	0.06845	-0.025622	-0.0226
	2.58**	.84***	0.32**	-0.44	-0.23**
ESG*ROA	-0.0036	-0.0022	2.788	-0.000074	0.0035
	-0.53*	-0.77	2.02**	-0.02	0.67
ESG*MTB	-0.0111	0.0169	-1.759	-0.0103	-0.0418
	-1.11	4.07***	-0.64	-1.28	-3.87
ROA	-0.0102	-0.0139	2.253	0.0029	-0.0022
	-1.89*	-4.33**	2.15**	1.1	-0.55
MTB	-0.0080	0.0020	1.348	0.0132	0.034252
	-1.00	0.91	0.63	2.12**	4.01**
LEV	0.0103	0.000009	-0.0850	0.0034	0.00752
	4.33***	0.13	-0.19	3.6***	4.38***
SIZE	0.0418	-0.0037	0.9992	-0.04019	-0.0750
	4.03	-1.93**	0.60	-9.3***	-9.15***
INDUSTRY	-0.0138	-0.0072	6.452	0.02941	0.0323
	0.61	-2.02**	2.01**	3.78***	2.4**
Cons	-1.6387	0.0490	50.567	0.9938053	2.0468
	-8.37	1.22	1.61*	12.81***	13.23***
Wald chi2(8)	203.50	45.95	29.86	447.09	333.42
Prob > chi2	0.000***	0.000***	0.000***	0.000***	0.000***

Significance levels: * p < .10 **p < .05, ***p < .01.

The results in Table 4 show that the disclosure of ESG information had a negative impact on real earnings management as measured through AOCF. The greater the company's disclosure of this information, the lower the real earnings management (Prior *et al*., 2008; Wang *et al*., 2016), which led us to accept hypothesis H1. If we look at the rest of the models, where the different variables of abnormal cash flow are analysed in more detail, the results show that companies with a strong ESG disclosure did not facilitate customer collections because firms shorten customer collections (0.0295) and supplier payments because they delayed their payment obligations (0.06845); this led us to reject hypotheses H1a and H1b. In addition, ESG disclosure did not have an impact on abnormal production cost, so we rejected hypothesis H1c. Finally, companies controlled abnormal discretionary expenses (-0.0226), which led us to accept hypothesis H1d.

Next, the impact of financial indicators on real earnings management was analysed. Specifically, we examined the incidence of their moderation effect on ESG disclosure on real earnings management. The moderating effect of financial variables on ESG disclosure on real earnings management is more or less pronounced, or even with a change in its sign.

Thus, regarding ROA, the results show that it was negatively related to AOCF and accelerating collections, indicating a decrease in AOCF and the favouring of customers, delaying collections. However, the relationship between ROA and suppliers is positive, indicating that the higher the profitability, the greater the delay in payment to suppliers. If we consider the moderating role of ROA, the influence of ESG disclosure on the reduction of AOCF is reinforced; hypothesis H2 is thus accepted. With respect to suppliers, the ROA moderates the ESG and AP relationship, maintaining its sign. This led us to reject hypothesis H2b. ROA reverses the effect of ESG on AR and ADISEXP, while the relationship between ESG and APROD remains non-significant. Hypotheses H2a, H2c and H2d were rejected.

Finally, the MTB variable significantly and positively related to manipulations affecting expenses (APROD and ADISEXP), indicating the existence of manipulations aimed at obtaining short-term results (DesJardine and Durand, 2020) but not practices affecting customers and suppliers. If the MTB variable had been taken into account as a

moderator, the relationship between ESG disclosure and AR would have been significant and positive (0.0169), so hypothesis H3a was accepted. MTB does not moderate the relationship between ESG disclosure and receivable collections to favour customers but to obtain higher cash flow. MTB moderation on ESG disclosure was not significant for the rest of the models, so hypotheses H3, H3b, H3c and H3d were rejected.

4.5 Discussion

The research of this chapter sought to analyse whether ESG disclosure and the moderating role of financial indicators on ESG have an impact on real earnings management practices (Healy and Wahlen, 1999; Roychowdhury, 2006) in order to reveal if ESG disclosure reduces earnings management, favours stakeholders or if its use is opportunistic. The results demonstrated that companies present high levels of AOCF, which indicates the strength of the firms in trying to present an image that suits their interests, makes financing possible or accommodates market expectations (Badertscher, 2011; Chy and Hope, 2021). At the same time, the results indicated high levels of ESG disclosure, showing that involvement in this type of practice is a current trend that is widely supported by companies (Bozzolan *et al*., 2015; Chen *et al*., 2018).

The results obtained in our regression analysis complement those of the previous literature (Alsaadi *et al*., 2017; García-Sánchez and García-Meca, 2017; Martínez-Ferrero *et al*., 2016). Acting under the umbrella of stakeholder-agency theory, ESG disclosure is negatively related to real earnings management (Alsaadi *et al.*, 2017; Cho and Chun, 2015; Hong and Andersen, 2011). There is some consistency between ESG and financial decisions (Boiral *et al.*, 2019), but not totally. The proposed models consider not only abnormal operating cash flows but also their components, involving the elements of working capital (AR and AP) and expenditures (APROD and ADISEXP). ESG disclosure only reduces the AOCF and ADISEXP. In addition, the results showed that firms engaged in ESG disclosure did not tend to favour customers by extending collection periods and reducing payments to suppliers (Lee, 2012; Owoo, 2017; Roychowdhury, 2006). Entities committed to ESG disclosure reduce real earnings management related to expenses, but

they do not introduce practices that financially favour customers and suppliers. On the contrary, they accelerate collections to customers and delay payment to suppliers, indicating that working capital remains an earnings management tool. The economic dimension of ESG should be expanded and reinforced to serve the financial expectations or requirements of customers and suppliers.

Regarding of ROA, the higher the profitability, the lower the real earnings management. Firms did not manipulate their income statement and there was even a negative relationship with AOCF, indicating that the earnings management decreases (de Jong and van der Meer, 2017; Torugsa *et al.,* 2013) and there were even measures taken to favour the customers delaying collections, but not other elements of working capital – suppliers (AP), possibly to try to serve other interests (Iatridis and Kadorinis, 2009; Voulgaris *et al*., 2015). When ROA is considered as a moderating variable, in the case of AOCF the negative relationship between ESG and AOCF is enhanced; in the rest of the variables, the effect is no longer determinant. ESG disclosure did not lead to the search for points of convergence, in this case with suppliers, seeking to reinforce the terms of the implicit contract between company and suppliers (Hsu *et al.,* 2022; Kannabiran, 2009; Kock *et al*., 2011).

In the same sense as the previous variable, although the results did not show a significant relationship between MTB and AOCF, they indicated that there was earnings management in relation to production costs and discretionary spending, suggesting a short-term view (Gras-Gil *et al.*, 2016; Cohen and Zarowin, 2010). In the case of capital markets, the interests of shareholders take precedence over stakeholders. When the moderating effect of MTB is taken into account, there is a positive relationship between ESG disclosure and the customer variable (AR), indicating that companies accelerate receivable collections. Thus, companies are subject to stock market pressures to achieve current earnings and meet short-term performance targets (Chy and Hope, 2021). ESG disclosure does not favour practices oriented toward the long term that would align the interests of managers and stakeholders in relation to the supply chain (Hill and Jones, 1992; Kock *et al*., 2011). Shareholder pressures to satisfy their short-term objectives could lead to real earnings manipulation, and these results remain in the case of ESG disclosure. The results

showed that there were other interests that drive companies to apply earnings management (Cohen *et al*., 2008) and reach short-term targets.

Finally, regarding the control variables, size had an impact on the earnings management. This may indicate that larger companies are less tempted to earnings management (Hsieh *et al*., 2019). In the case of leverage, earnings management is related to accrual earnings management. Finally, the industry is related to the existence of earning management of both expenses and working capital elements.

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5. Chapter Five: Environmental, Social and Governance (ESG) disclosure and its relationship to tax practices: Stakeholder-friendly or legitimacy-seeking?

This chapter seeking to respond to objectives 1, 2 and 3 of the thesis. It examines the often-overlooked connection between Environmental, Social, and Governance (ESG) disclosure and corporate tax avoidance. It delves into how ESG disclosures may reflect a company's social responsibility or, conversely, be used to conceal tax avoidance practices. This chapter considers how paying taxes is crucial for governments to deliver public services and contribute to societal well-being, positing that tax avoidance contradicts the responsibilities of a good corporate citizen.

5.1 Introduction

ESG disclosure and tax avoidance have been studied separately, and little attention has been paid to the relationship between them (Hanlon and Heitzman, 2010; Sikka, 2010), although there are some contributions (Lanis and Richardson, 2012; Mao, 2019). Further analysis of the consistency or lack thereof between ESG disclosures and the possible existence of tax avoidance practices is needed to the extent that reliability and integrity are necessary to ensure long-term sustainability.

Corporate tax avoidance could be considered an indicator of interest for society and communities to assess corporate social engagement (Armstrong et al., 2019). Taxes are considered vital for governments to redistribute wealth and provide social services that contribute to the cohesion and development of societies, such as healthcare, education, public transport, defence, and a variety of other services (Makni et al., 2019). Paying taxes enables the government to provide public goods (Freise et al., 2008), and tax avoidance poses a barrier to that goal (Lanis and Richardson, 2012). Paying taxes is an important form of business participation in society. In fact, paying taxes is considered a fundamental aspect of being a responsible citizen, and avoiding taxes is incompatible with being a good, responsible citizen (Lanis and Richardson, 2012). Thus, when a company does not pay the appropriate and adequate amount of taxes, the welfare indicators of society can be affected. The opportunistic tax avoidance behaviour of companies prevents governments from collecting taxes, which leads to sacrificing the interests of citizens (Park, 2017). The problem of tax avoidance arises from the conflict of interest between taxpayers and tax authorities. The government wants to collect a larger amount of taxes, while the company

might try to reduce expenditures, including tax expenditures, to obtain higher profits (Friedman, 1970).

On the other hand, the state allows companies to deduct certain investments and expenses related to philanthropic actions, patronage, and investments that ensure sustainability, among others. A large part of these expenses is part of the companies' ESG strategy, and in this sense, we could speak of coherence between tax policy and the companies' ESG strategy. To study the relationship between ESG disclosure and practices that have fiscal effects, we must distinguish between practices that entail permanent tax differences and those that give rise to temporary differences. The former are related to philanthropic actions, sponsorships, and investments proposed by the state that allow the reduction of tax liability. Traditionally, the literature has called tax avoidance practices those related to permanent tax differences (Chen et al., 2010; Irianto et al., 2017; Mao, 2019; Zeng, 2019), but these practices benefit different stakeholders through job creation, environmental improvement, aid in natural disasters, emergency situations or culture, among others. Therefore, we should not consider them as tax avoidance practices.

The second kind of practice, temporary differences in taxation, arises from temporary differences between accounting criteria (income and expense recognition and deferrals over time) and tax criteria and could be considered tax avoidance practices to the extent that they can be related to accrual earnings management practices. In this case, companies could use ESG disclosures to counteract tax avoidance practices. Thus, it is necessary to consider separately the relationship between ESG disclosure and practices that give rise to permanent and temporary tax differences (Lanis and Richardson, 2012).

The research of this chapter contributes to deepening the coherence between ESG commitments and other practices that may show ethical misconduct or commitments to society, specifically behaviours that have tax effects. Tax avoidance practices could harm the value of the company and damage its relationship with stakeholders, so ESG disclosures should reliably reflect companies' ethical commitments in a way that leads to eliminating potential misleading practices by companies, including tax avoidance practices (Martínez-Martínez et al., 2021).

The relationship between ESG disclosure and practices that have fiscal effects can be studied under two main different theoretical frameworks: stakeholder theory and legitimacy theory. The former assumes that ESG disclosure seeks to meet stakeholder demand. The ESG practices that society demands from companies have evolved, and nowadays it could be said that society requires companies to give back in some way or give retribution for the use of resources such as infrastructure, natural resources, and education, among others (Lanis and Richardson, 2012). One way to give back to society for the use of these resources is through taxes, but there is also another possibility. Companies can directly meet the requirements of society through philanthropic activities and other investments that society or stakeholders demand (Arco-Castro et al., 2020). Companies can apply resources to charity, sponsorships or investments that the state contemplates among its objectives, such as those linked to the Sustainable Development Goals (SDGs), which involve tax deductions and which companies include in their ESG strategy. Along these lines, stakeholder theory suggests that the role of the company in society will not only serve the interests of its business and shareholders, but it must also think and work for the benefit of stakeholders and society in general, with taxes occupying a central place (Hill and Jones, 1992).

On the other hand, the effect of ESG disclosure on practices that have tax effects could be discussed from a different angle. According to legitimacy theory (Deegan et al., 2002), firms may use ESG disclosure to cover up or counteract the negative effects of their tax avoidance practices, as these could have an impact on firm value, or their reputation could be damaged (Kim and Im, 2017), to the extent that tax avoidance practices may be considered socially irresponsible actions (Lanis and Richardson, 2012; Rego and Wilson, 2012).

The first purpose of the study of this chapter is to investigate, based on stakeholder theory, whether ESG disclosure and practices with tax effects are consistent, i.e., whether ESG disclosure has an impact on reducing practices related to tax avoidance, which have to do with temporary tax differences, and enhances practices involving permanent tax differences, which have to do with ESG-related policies. The second objective, based on legitimacy theory, is to analyse whether ESG disclosure is carried out to counteract or hide corporate misbehaviour related to tax avoidance.

In addition, we seek to analyse whether the company's financial situation affects the relationship between ESG disclosure and tax practices, i.e., the relationship between ESG disclosure and tax avoidance could be moderated by the company's financial situation. In this sense, profitability and financial risk could moderate the effect of ESG disclosure on practices that have tax effects by strengthening or weakening the relationship between the variables that capture tax differences and ESG disclosure. This will depend on the type of tax effect (permanent or temporary) and the purpose of ESG disclosure. This moderating effect could be argued from both a stakeholder and a legitimacy perspective. With respect to profitability, more profitable companies would be more inclined to avoid taxes than companies with minimal returns (Oktaviyani and Munandar, 2017; Zeng, 2019), as companies with minimal returns do not have as much tax burden (Dunbar et al., 2010; Fernández-Rodríguez and Martínez-Arias, 2014). On the other hand, more profitable companies could allocate resources to other activities, such as philanthropic or community activities, or think about new investments that could imply a tax reduction (Makni et al., 2019; Parisi, 2016). In the same vein, one could argue that heavily indebted firms may have a strong incentive to avoid taxes to increase the cash available to meet their financial burden (Badertscher et al., 2009b; Salehi and Salami, 2020). Alternatively, it could be thought that firms prefer to use tax mechanisms rather than indebtedness because of the financial cost (Hasan et al., 2014). On the other hand, highly indebted companies may have few resources available for social or environmental improvement activities.

The results show that ESG disclosure has a positive relationship with permanent tax differences, while it is negative with temporary tax differences, which is as expected according to stakeholder theory. The level of indebtedness does not moderate the relationship between ESG disclosure and tax differences, while profitability positively moderates the relationship between ESG disclosure and temporary tax differences, which could imply that ESG disclosure could be used to counteract the negative effect of tax avoidance, as indicated by legitimacy theory. This conclusion seems to be reinforced by the fact that ESG disclosure is positively related to the existence of abnormal operating cash flows, an indicator of real earnings management.

The research of this chapter provides important implications for policymakers on how to incentivize certain practices that can positively impact sustainability and the

achievement of the SDGs. Companies can take advantage of the possibilities offered by tax rules to allocate resources to cover social needs or problems through philanthropic activities and direct contributions to society that are identified with their mission and vision and reflected in their ESG strategy. However, with respect to practices that give rise to temporary tax differences, analysts and investors may be aware that increased disclosure of ESG information may be intended to distract attention from tax avoidance practices.

The remainder of the chapter is organized as follows. Section 2 reviews the literature and develops the hypothesis. Section 3 defines the variables and describes the sample and method. Section 4 presents the results. Section 5 provides a discussion. The main conclusions of the chapter will be presented in section 7 of the thesis.

5.2 Literature review

5.2.1 ESG disclosures and tax-differentiated transactions or practices

ESG disclosure and practices that have tax effects can be used to drive firm value (Dhaliwal et al., 2011; Lev et al., 2010). On the one hand, firms with a higher level of ESG disclosure should be less likely to engage in tax avoidance practices (Hoi et al., 2013; Kim and Im, 2017; Lanis and Richardson, 2015; Lin et al., 2017; Lopez-Gonzalez et al., 2019; Ortas and Gallego-Álvarez, 2020). As we have pointed out, two types of practices that have tax effects can occur. There are practices that may originate from investments in line with companies' ESG strategy, while others could originate from the exercise of accrual earnings management. Most of the literature links ESG disclosure with tax effects without distinguishing between the potential tax effects of different practices, but the rationale for each is very different and should be analysed separately (Kim and Im, 2017; Lanis and Richardson, 2012). Permanent tax differences arise from the state's interest in incentivizing certain practices (philanthropic activities, sponsorship or patronage, job creation, environmentally responsible investments, etc.) (Arco-Castro et al., 2020), while temporary tax differences could be related to accounting manipulation practices that involve shifting the tax burden over time and/or tax avoidance (Gulzar et al., 2018; Lanis and Richardson, 2012; Park, 2017).

In this sense, operations involving permanent tax differences are the result of taking advantage of government facilities and could be related to ESG practices. When the company invests or donates in accordance with its ESG policies, it is considered to contribute directly to society, and at the same time, it can improve its reputation and reduce tax payments. In this sense, a positive relationship between ESG disclosure and permanent tax differences would be expected.

However, the relationship between ESG disclosure and temporary tax differences could be studied from two different perspectives. On the one hand, under the stakeholder theory framework, the relationship could be negative, as increased levels of ESG disclosure should reduce the likelihood of engaging in tax avoidance practices (Kim and Im, 2017; Lanis and Richardson, 2015), which are considered unethical. Meanwhile, under the legitimacy theory, the relationship between temporary tax differences and ESG disclosure would be positive, insofar as temporary tax differences may be the result of accounting manipulation (accrual earnings management) to reduce the amount of taxes payable. In this case, ESG disclosure can be used to try to counteract the potential negative effect of misleading accounting practices (Lanis and Richardson, 2012). In this chapter, we opt for the legitimacy theory framework to study the relationship between ESG disclosure and temporary tax differences (Gulzar et al., 2018; Mao, 2019), and in this sense, a positive relationship between ESG disclosure and the existence of temporary tax differences is expected.

According to legitimacy theory, a company could consider ESG disclosure as a management strategy (Godfrey et al., 2009; Shafai et al., 2018) to cover up ethical bad practices, tax avoidance practices being among them (Gulzar et al., 2018; Mao, 2019; Zeng, 2019). In this way, companies would cover up their unethical behaviours and reduce the potential effects of practices that may damage their reputation (Gulzar et al., 2018; Mao, 2019; Zeng, 2019) and involve risks. Tax avoidance exposes companies to tax penalties, loss of customers, and reputational damage, among others. In this sense, companies could consider ESG disclosure as a reputational risk management tool (Lanis and Richardson, 2013; Pratiwi and Siregar, 2019) to cover up their tax avoidance practices and preserve

their legitimacy and reputation, expecting a positive relationship between ESG disclosure and temporary tax differences.

Accordingly, the following research hypotheses are proposed:

H1a: There is a positive relationship between ESG disclosure and permanent tax differences.

H1b: There is a positive relationship between ESG disclosure and temporary tax differences.

5.2.2 The moderating effect of profitability on the relationship between ESG disclosure and transactions or practices giving rise to tax differences

The relationship between ESG disclosure and tax-differentiating practices could be affected by financial aspects that may limit or enhance the relationship between these variables. The starting hypothesis is that ESG practices and the tax strategy adopted by a company could be moderated by its financial and economic situation. In this sense, the relationship between ESG disclosure and practices that have fiscal effects could be moderated by financial indicators. One such indicator is profitability. Decision-makers need information on a company's profitability to determine whether it is using its resources effectively and efficiently (Nwude et al., 2021).

When considering how profitability might affect the relationship between ESG disclosure and tax practices, we have to consider both practices involving permanent tax differences and those involving temporary tax differences. With respect to permanent tax differences, taking the perspective of stakeholder theory, it is understood that ESG disclosure entails carrying out actions in the social and environmental sphere with the aim of improving stakeholders' confidence in the company and satisfying their demands (Chih et al., 2008; Choi et al., 2013). These actions could involve permanent tax differences in the calculation of tax expenditure. Profitability can enhance the effect of ESG disclosure on permanent tax differences, since when the company generates additional resources, these resources can be used to satisfy stakeholder demands and be captured in ESG

reporting (Lopez et al., 2007). Consequently, more profitable companies have more resources at their disposal and would be incentivized to make ESG investments that could directly contribute to society. These investments can be philanthropic, social, or environmental activities that can result in permanent tax differences (Arco-Castro et al., 2020). Therefore, when a company has higher profits, it would make and disclose a higher volume of ESG information, enhancing the positive relationship between ESG disclosure and permanent tax differences (Irianto et al., 2017; Kim and Im, 2017; Lanis and Richardson, 2012; Makni et al., 2019; Parisi, 2016).

On the other hand, in relation to temporary tax differences, from the perspective of legitimacy theory, as we have noted above, ESG disclosure could be used to mislead stakeholders or to counteract the negative effects of actions that may be related to tax avoidance. In this context, profitability could enhance the positive relationship between ESG disclosure and temporary tax differences. The underlying reasoning is that more profitable firms might have a greater incentive to decrease tax expense compared to less profitable ones (Chen et al., 2010; Dunbar et al., 2010; Richardson and Lanis, 2007) by using accounting practices that affect amortization expense, depreciation, inventories, etc. Firms that earn higher profits may be more likely to increase their profits through income tax reduction in order to meet and maintain shareholders' expectations (Lanis and Richardson, 2012). Thus, firms with higher growth opportunities would be more likely to use accounting practices that reduce taxes (Phillips, 2003). Managers could use ESG disclosure to show a better image of the entity. In this sense, profitability would have a moderating effect on the relationship between ESG disclosure and positive temporary tax differences. Therefore, based on the above, the following hypotheses are put forward:

H2a: Profitability positively moderates the relationship between ESG disclosure and permanent tax differences.

H2b: Profitability positively moderates the relationship between ESG disclosure and temporary tax differences.

5.2.3 The moderating effect of indebtedness on the relationship between ESG disclosure and practices that give rise to tax differences.

Another crucial financial indicator is leverage. Companies resort to debt to meet their operating needs and finance their investments. The level of indebtedness and its cost can affect the type of investment made and the tax strategy followed. Thus, the relationship between ESG disclosure and practices that have fiscal effects may be moderated by the level of indebtedness. Based on stakeholder theory, ESG disclosure levels are related to philanthropic, social, or environmental investments, and these are related to permanent tax differences in the tax calculation. These types of investments that affect tax assessments entail a considerable cost for companies, although the investments made represent a good for society and the community (Rego and Wilson, 2012). A high level of indebtedness could mean that financing is applied to essential investments in the development of the main business objective and not to those that could give rise to permanent tax differences (Hoi et al., 2013; Kim and Im, 2017). In this sense, indebtedness should negatively moderate the relationship between ESG disclosure and practices that give rise to permanent tax differences. High indebtedness could affect solvency and, consequently, voluntary or non-core investments (Hasan et al., 2014; Kubick et al., 2020), meaning that the moderating effect would counteract the positive relationship between ESG disclosure and permanent differences and might even become negative. Another issue, if the issue is studied from the perspective of legitimacy theory, is that ESG practices are used to show a better image of the company and hide the effect that high financial risk can have. ESG can be a tool used to mislead stakeholders to hide economic difficulties and conceal their fiscal practices (Jadiyappa et al., 2021; Muttakin et al., 2015; Scholtens and Kang, 2013). In this case, the relationship would be positive.

For their part, temporary tax differences may be the result of manipulation of accounting practices, as they may be related to accrual earnings management. In this context, and based on legitimacy theory, ESG disclosure could be used opportunistically (Jadiyappa et al., 2021; Muttakin et al., 2015) to mislead information users (Chih et al., 2008). The level of indebtedness could positively moderate the relationship between ESG disclosure and the existence of temporary tax differences. A high level of indebtedness

implies a higher perceived solvency risk for companies, and along the same lines as the use of temporary differences, companies could increase ESG disclosure in an attempt to provide a good image and counteract the possible bad effect of the use of accrual management and high indebtedness.

In addition, higher leverage could be an incentive to avoid taxes and reserve cash with which to pay the debt burden and show higher profits to attract stakeholders (Badertscher et al., 2009b; Lanis and Richardson, 2012; Richardson et al., 2016b). At the same time, companies would disclose a higher volume of ESG information to cover up their deceptive practices, so they would use ESG disclosure to legitimize their performance to stakeholders, especially creditors. Thus, leverage is expected to strengthen the positive relationship between ESG disclosure and temporary tax differences (Putri and Putra, 2017; Richardson et al., 2016).

Therefore, reducing tax expense could be a technique to maximize firm value for firms with a high debt ratio, and an accounting practice that leads to temporary differences made to reduce the amount of tax payment could be considered a tax avoidance practice (Koh and Lee, 2015; Kweon et al., 2009). Based on the above discussion, we develop the following hypotheses:

H3a: The level of indebtedness negatively moderates the relationship between ESG disclosure and permanent tax differences.
H3b: The level of indebtedness positively moderates the relationship between ESG disclosure and temporary tax differences.

5.3 Methodology

5.3.1. Sample

The sample consists of the 395 companies from European countries with higher operating cash flow. We selected operating cash flow as the sample selection criterion because it is a better predictor of future cash flow performance than accrual earnings (Healy and Wahlen, 1999). Benefits are shareholder-centric and short-lived but suppose a mid-to-

long-term decrease in operating cash flow (DesJardine and Durand, 2020). Companies with higher operating cash flow are more likely to have abnormal operating cash flow (Hsieh *et al*., 2019), and possibly apply more tax avoidance practices, which is the object of this study, during the period 2010 to 2019. This period is between the global economic crisis and the COVID-19 pandemic and could be considered a period of stability. Financial information is collected from Refinitiv Thomson Reuters and ORBIS. The companies in the sample have their financial and ESG disclosure data available from Refinitiv Thomson Reuters and ORBIS for at least 5 years between 2010 and 2019 and are not financial institutions, as they are generally subject to different tax treatments or use different accounting standards, and their financial reporting follows IFRS. This leaves a sample of 177 companies consisting of 1,659 company-year observations.

5.3.2. Variables and measurement

The general measure of the tax effect is the effective tax rate (ETR), which is calculated by dividing the total tax expense by the accounting profit before tax (Lanis and Richardson, 2012). ETR is used as a proxy for the tax effects of accounting practices. Many researchers have claimed that ETR detects tax pressure and is suitable for use as a measure of the tax effects of business practices (Dyreng et al., 2008; Hoi et al., 2013; Lanis and Richardson, 2012; Robinson et al., 2010). However, ETR has a limitation: it only captures permanent differences arising from fiscal policies. As a robustness test, the current effective tax rate (CETR) can be used. This CETR refers to the tax payable divided by pre-tax profit and captures the effects of both permanent and temporary tax differences that respond to both the application of tax and accounting rules (Dyreng et al., 2016; Hardeck and Kirn, 2016; Lanis et al., 2017; Tang, 2019). To ensure the robustness of the results, both types of tax effects were analysed (Chen et al., 2010; Dyreng et al., 2016; Hardeck and Kirn, 2016; Lanis et al., 2017; Tang, 2019; Zeng, 2019). In addition, it should be taken into account that there may be differences in tax rates between different countries and even from one year to another in the same country. Thus, the difference between the ETR and CETR variables and the statutory tax rate (STR) is used to control for possible differences between tax rates in different countries and within the same country over the years. Such

differences measure the total tax savings due to permanent and temporary tax differences affecting tax expenditure (Tang, 2019).

In other words, accounting practices that have tax effects are measured by the magnitude of the difference between the ETR and the STR. The larger the difference, the greater the tax effects of accounting practices and vice versa (Chen et al., 2010; Tang, 2019; Zeng, 2019). The STR is the tax rate for each country taken from the Tax Foundation's Global Tax Policy Centre. Introducing the STR makes it possible to separately study the tax effects of accounting practices (Tang, 2019; Zeng, 2019).

As for ESG disclosure, we use the ESG score obtained from the Refinitiv Eikon database, which takes values from 0 to 1, with a higher number indicating a higher volume of ESG disclosure. As for the moderating variables, we use the debt ratio (total debt to total assets) as a measure of leverage and ROE (return on shareholders' equity) as a measure of profitability. The values of these variables are obtained from the ORBIS database.

As control variables, measures of accounting manipulation, market valuation and size, and sector are introduced. Abnormal operating cash flows are introduced as an accounting manipulation variable. While temporary tax differences capture accrual earnings management, the company can use real earnings management practices to improve the company's financial indicators. Also, companies can expect to have greater fiscal oversight over practices that cause temporary tax differences than those that affect operating cash flows. This would lead them to manipulate operating cash flows rather than the application of accruals. In addition, it should be considered that cash flows are an element increasingly used to assess a company's solvency, so their manipulation is more likely than that which might draw the attention of the tax authorities. Disclosure of ESG information could be used opportunistically, to counteract measures aimed at improving the company's financial image. In that case, the relationship between real earnings management and ESG disclosure would be positive (Gargouri et al., 2010; Martinez-Ferrero and Garcia-Sanchez, 2015; Muttakin et al., 2015; Scholtens and Kang, 2013). The effect on permanent tax differences would be negative under stakeholder theory, and that on temporary tax differences would also be negative to the extent that firms opt for real

earnings management rather than accrual earnings management (Armstrong et al., 2019; Hanlon et al., 2014; Kałdoński and Jewartowski, 2020). The use of both measures is not expected, as it would mean increasing the possibility of control by the authorities.

Relating to their measure, following Dechow et al. (1998), we calculate the operating cash flow (CFO) as a function of sales (s) and the change in sales (Δs).

$$CFOt/At\text{-}1 = \alpha 0 + \alpha 1*(1/At\text{-}1) + \beta 1*(St / At\text{-}1) + \beta 2*(\Delta St / At\text{-}1) + \varepsilon t \quad (1).$$

Where:

CFOt/At-1 represents cash flows from operating activities in year t scaled by total assets in year t-1.

(1/At-1) represents the intercept divided by total assets in year t-1, so the cash flow from operating activities has a value of 0 when sales and sales lag are 0.

(St/At-1) represents net sales in year t divided by total assets in year t-1.

(ΔSt /At-1) represents the change in firm i's sales (sales in year t - sales in year t-1) divided by total assets in year t-1.

(ΔSt-1 / At-1) represents the change in firm i's sales in year t-1 divided by total assets in year t-1.

The residuals of the regression in model (1) are considered AOCF. In other words, there are differences between the actual and estimated normal (operating cash flow), which are represented by the estimated model coefficients.

In relation to the other control variables, the market-to-book value ratio (MTB) is introduced as a control variable to the extent that firms that are more overvalued by the market might, in order to meet or exceed market expectations, engage in manipulative practices (Badertscher, 2011). In addition, the size variable (SIZE) is introduced as large firms can perform tax planning and are more able than small firms to select the accounting (Rego, 2003). Finally, the sector (INDUSTRY) is introduced because practices with tax effects may differ across sectors (Ho et al., 2015; Zeng, 2019).

Where TA1 is tax avoidance that represent permanent, TA2 is tax avoidance that represent temporary differences, ESG is ESG disclosure measure, AOCF is abnormal operating cash flow, MTB is market to book value ratio, ROA is return on equity, LEV is

financial leverage, SIZE is firm size, and, finally, Industry is the type of industry in which the firm operates (Table 5).

Table 5. Variables and measurements

Variables	Measurement
Tax Avoidance (TA)	STR (statutory tax rate); ETR (effective tax rate); CETR (current effective tax rate) TA1: STR - ETR (permanent differences) TA2: STR - CETR (temporary differences)
Environmental, social, and governance (ESG) disclosure	ESG score from 0 to 1 (Refinitiv Eikon)
Profitability (ROE)	Return on equity (percentage)
Leverage (LEV)	Total debt/total assets
Abnormal operating cash flow (AOCF)	Actual operating cash flow - normal operating cash flow that resulted from equation (1)
Size (SIZE)	Natural logarithm of total assets
MTB	Total market value/total book value
Industry (Industry)	Dummy variable equal to 1 if the firm is related to a high-environmental-impact industry and 0 otherwise

5.3.3. Research model

Based on the result of the Durbin-Wu-Hausman test, fixed effects panel data are applied. In order to contrast problems of heteroscedasticity, autocorrelation, and endogeneity, the Wald test, the Wooldridge test, and the Hausman test, respectively, are applied. The results confirm that the sample does not present these problems, and therefore the panel fixed effects regression model is the most appropriate. The models proposed are the following:

$$TA_{i,t}\ 1 = a_{it} + \beta_1\ ESG_{it} + \beta_2\ ESG^*\ ROE_{it} + \beta_3\ ESG^*LEV_{it} + \beta_4\ AOCF_{it} + \beta_5\ SIZEit + \beta_6\ MTB_{it} + \beta_7\ Industry_{it} + u_{it} \quad (2).$$

$$TA_{i,t}\ 2 = a_{it} + \beta_1\ ESG_{it} + \beta_2\ ESG^*\ ROE_{it} + \beta_3\ ASG^*LEV_{it} + \beta_4\ AOCF_{it} + \beta_5\ SIZE_{it} + \beta_6\ MTB_{it} + \beta_7\ Industry + u_{it} \quad (3).$$

Where:
TA 1 refers to permanent tax differences and, as we have indicated when defining the variables, is calculated as STR - ETR.

Where ETR is the total income tax expense/accounting profit before tax and before extraordinary items.

TA 2 refers to temporary tax differences and is calculated as STR - CETR.
Where CETR is the income tax payable/income before tax.

5.4 Results

Table 6 shows the results of the descriptive statistics of the variables. For the dependent variables, the results show that permanent tax differences present a higher volume than temporary tax differences (0.231 and 0.12, respectively). In the case of the ESG disclosure variable, the mean value is high (0.722) due to the fact that we are taking as a reference the ESG disclosure of entities listed in an index that follows sustainability criteria.

The average LEVERAGE indicates that the companies do not have high indebtedness and that ROE can be considered quite high. Also, the volume of AOCF can be considered significantly high.

Table 6. Descriptive statistics of variables

Variable	Mean	Std. Dev.	Min	Max
TA1	0.231	0.100	-0.319	0.444
TA2	0.12	0.459	-9.179	3.433
ESG	0.722	0.165	0.0833	1
ROE	23.5	65	-68.7	245.0
LEVERAGE	1.25	.611	0	113.72
AOCF	0.710	0.583	0.005	8.101
SIZE	17.071	1.050	14.600	20.120
MTB	0.954	0.209	0	1
Industry	0.573	0.494	0	1

The correlation analysis in Table 7 indicates that permanent tax differences, TA1, correlate significantly and positively with time differences, TA2; ESG disclosure; and LEVERAGE, with a significant and positive sign. However, with ROE, the association is negative (-0.0398). As for temporary tax differences, TA2, there is a significant and negative association with ESG disclosure and LEVERAGE. On the other hand, AOCF is

negatively associated with TA1 and TA2, while the association with ESG disclosure is positive, as hypothesized.

Table 7. Bivariate correlations between variables matrix

	TA1	*TA2*	*ESG*	*ROE*	*LEVERAGE*	*AOCF*	*SIZE*	*MTB*	*IND*
TA1	1								
TA2	0.086***	1							
ESG	0.072***	-0.027*	1						
ROE	-0.039*	0.002	0.0165	1					
LEVERAGE	0.056***	-0.011*	0.027	0.046***	1				
AOCF	-0.084***	-0.026*	0.076***	0.334	-0.0284	1			
SIZE	0.029	0.004	0.381***	.0706*	-0.060***	0.2041***	1		
MTB	-0.092	0.028	0.132***	-0.082***	0.004	0.0013	-0.0207	1	
IND	-0.034	0.024	0.088***	0.085***	0.057***	0.0193	-0.072***	0.0212	1

Significance levels: * p < .10 **p < .05, ***p < .01

Table 8 shows the results of the regressions, showing in one column the results for permanent tax differences (TA1) and in another, those for temporary tax differences (TA2).

Table 8. Results of the regression analysis

Independent variables ¤	**TA1**	**Hypotheses**	**TA2**	**Hypotheses**
ESG	0.071319***	H1a accepted	-0.11796***	H1b rejected
ESG*ROE	-0.00228	H2a rejected	0.121472**	H2b accepted
ESG*LEVERAGE	-0.00034	H3a rejected	0.0000719	H3b rejected
ROE	0.002753		0.10022**	
LEVERAGE	0.000405		0.000101	
AOCF	-0.00798***		-0.05185***	
SIZE	-.000062		0.018547***	
MTB	0.000261		0.005821	
Industry	-0.00531		0.005967	
_cons	0.201448		-0.10738	
Wald chi2(7)	343.16		62.16	
Prob > chi2	0.0000***		0.0000***	

Significance levels: * p < .10 **p < .05, ***p < .01

From the regression, it can be seen that an increase in ESG disclosure leads to an increase in TA1 (0.07), which means that permanent tax differences are positively and significantly associated with the level of ESG disclosure, i.e., there is a certain degree of identification between the practices that generate permanent tax differences and the information derived from ESG practices. In this way, companies can serve society while establishing good relations with it and improving their perception among stakeholders and society in general. This result accepts hypothesis H1a. However, the relationship between ESG disclosure and TA2 is negative, indicating that companies are less likely to avoid taxes when there is a higher level of ESG disclosure in general, rejecting hypothesis H1b. This could lead us to assert that entities with a high level of disclosure would not manipulate accounting information, showing consistency in their actions. However, the fact that the relationship between temporary tax differences and the AOCF variable is significant and negative indicates that companies could be choosing to manipulate operating cash flows instead of using accruals to avoid tax control. In this sense, their actions would respond to legitimacy theory and not to stakeholder theory, as it might seem at first glance.

Regarding ROE and LEV as moderating variables to analyse whether the relationship between ESG disclosure and tax differences is affected by the impact of these financial variables, we observe that for ROE, the moderating effect on ESG is not related to TA1, rejecting H2a; meanwhile, the moderating effect of ROE on the relationship between ESG disclosure and temporary tax differences, TA2, is positive, meaning that higher profitability leads to using ESG disclosure as a tool to counteract the use of accruals to affect the tax liability, accepting H2b. However, the level of indebtedness is not significant and does not moderate the relationship in any case, rejecting hypotheses H3a and H3b.

As for the control variables, in both models, AOCF is negatively related to TA1 and TA2, which may indicate in the first case that companies that engage in ESG-compliant practices do not manipulate their operating cash flows, while the relationship with temporary differences indicates that they are opposite measures and that entities choose to manipulate accrual or operating cash flows, but do not use both practices. For its part, SIZE is not related to TA1 but positively related to TA2, meaning that larger firms are more

likely to avoid manipulation-based taxes than smaller firms. As for MTB, it is not related to either TA1 or TA2, indicating that it is not a market-sensitive parameter. INDUSTRY is not significant, meaning that there are no differences in tax practices based on industry.

5.5 Discussion

The results indicate that, when there is a high commitment to ESG disclosure, the relationship with permanent tax differentials is positive and significant, indicating that companies prefer to invest and contribute directly to society. Companies channel their social and environmental concerns within the framework allowed by the state to improve their reputation. In this way, they can serve society and at the same time establish good contact with it and improve their image in the eyes of stakeholders and society as a whole (Arco-Castro et al., 2020). When they yield these concerns to the tax authority through the payment of taxes, they contribute to society, but they cannot benefit from it to build a good reputation.

However, a significant negative relationship has been found between temporary tax differences and ESG disclosure. This result would explain that a higher commitment to ESG disclosure implies a lower use of tax deferrals (which give rise to temporary differences) (Lanis and Richardson, 2012). This would align with the discussion that firms with a higher level of ESG disclosure as a whole are less likely to elude taxes (Hoi et al., 2013; Kim and Im, 2017; Lanis and Richardson, 2015). This situation is not so clear to the extent that companies present a positive relationship between AOCF and ESG disclosure. In addition, the relationship between temporary tax differences and AOCF is negative, indicating that companies could be opting for real earnings management instead of accrual earnings management. Thus, with respect to ESG disclosure, our results using the first measure of fiscal practices (permanent) are in line with stakeholder theory, while the second measure (temporary), which in principle would also be in line with stakeholder theory, could be in line with legitimacy theory. In other words, companies do not use accrual earnings management, perhaps to avoid fiscal control, but apply real earnings management.

In relation to financial variables, the moderating effect of profitability is not significant in the relationship between ESG information and permanent tax differences, but it is significant in the relationship between ESG disclosures and temporary differences (Chen et al., 2010; Dunbar et al., 2010). Profitability is not a determinant in the relationship between ESG disclosure and permanent tax differences, although this type is considered good practice for providing services directly to the community, implying that companies do not increase their philanthropic activities when they have higher profitability. On the contrary, according to the legitimacy theory, profitable firms are motivated to increase their profits through income tax reduction (Lanis and Richardson, 2012). In this sense, profitability increases the positive impact of ESG disclosure on temporary tax differences that relate to accrual earnings management. Perhaps ESG disclosure is being used to mislead stakeholders (Jadiyappa et al., 2021; Muttakin et al., 2015; Scholtens and Kang, 2013).

In reference to leverage, a company's level of indebtedness does not moderate the relationship between ESG disclosure and permanent and temporary tax differences, just as there is no direct relationship between that variable and tax differences. The reason could be that companies do not take leverage into account when planning their tax strategies or that there is some other variable that is stronger in the model and leads to indebtedness not being significant.

With respect to the control variables, it is evident that there is a positive and significant relationship between size and temporary tax differences. In contrast, firm size is not related to permanent tax differences. Although we use different sectors in our sample, the results show that the type of industry is not related to tax practices, revealing that tax evasion is not limited to a specific sector.

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6. Chapter Six: The Effect of Environmental, Social, and Governance (ESG) Disclosure and Real Earning Management on the Cost of Financing

This chapter is dedicated to explore the influence of Environmental, Social, and Governance (ESG) disclosure on financing costs and how it affects lenders' and investors' decisions. It focuses on creditors and investors and investigates whether ESG disclosure helps companies secure lower costs of debt (COD) and equity (COE) by appearing more responsible to those financing them, or if it is perceived as an additional cost or unreliable by lenders and investors.

Furthermore, it looks into whether lenders and investors take into account practices like real earnings management when assessing the trustworthiness of ESG information, which could influence the cost of financing. The assumption is that if companies manipulate earnings, it might weaken the perceived credibility of ESG disclosures and affect financing costs.

6.1 Introduction

For companies, deciding how to finance their growth is very important. ESG disclosure may legitimise companies in the eyes of lenders and investors to obtain lower costs of debt and equity, or lenders and investors could perceive ESG as a cost or unreliable. The literature has typically focused on either the cost of equity or the cost of debt, but limited research considers both forms of financing. It is essential to know if the stakeholders (lenders and investors) value ESG disclosure in the same way or have opposing stances to determine how they consider this information in making decisions to lend or invest. In addition, lenders and investors could consider some practices, such as real earning management, to determine the credibility and reliability of the ESG information and set the cost of financing accordingly. According to Mitnick et al. (2023), real earning management, which is understood as accounting manipulation, would affect the relationship between ESG disclosure and the cost of financing. Lenders and investors may think that ESG disclosure is being used to cover up misconduct and mislead stakeholders.

This chapter aims to identify whether ESG disclosure legitimises companies in the eyes of lenders and investors and thus obtains lower COD and COE, respectively. In addition, we examine if lenders and investors consider earning management practices in

determining the credibility and reliability of the ESG information. Previous literature has mainly focused on the COE (Attig et al., 2013; Cao et al., 2015). Our study will investigate the relationship between ESG disclosure and COD and COE. It is also critical to assess whether firms use ESG disclosure to mislead lenders and investors to counteract potential earnings management effects and obtain a lower COD and COE and how lenders and investors perceive this. To this end, we analyse whether earnings management moderates the influence of ESG disclosure on the COD and COE.

Companies consider aspects such as the loss of autonomy when new investors enter or the level of financial risk of new debt. The cost of financing is a very relevant issue. The cost of financing includes both the cost of debt (COD) and the cost of equity (COE) (Bhuiyan and Nguyen, 2019; Hasan et al., 2017). The inability to increase finances or the cost of doing so could be caused by non-compliance with the requirements of lenders and investors (Cheng et al., 2014). Financial constraints directly limit the firm's ability to make investment decisions and influence the firm's capital structure choices (Hennessy and Whited, 2007). In addition, it should be noted that the higher the risk perception of financiers, the higher the cost of financing. Consequently, to achieve a reduced cost of financing (COD and COE), lenders and investors could demand non-financial information before deciding whether to offer the firm a lower COD and COE. Financial information disclosure would be insufficient to meet the information needs of these stakeholders and should be complemented by a sustainability disclosure. ESG reports are the most in-demand form of sustainability information (Raimo et al., 2020). They reduce information asymmetry; facilitate the assessment of potential risks related to the environment, society, and governance; and show accountability towards stakeholders, society, and the environment (Eccles et al., 2012; El Ghoul et al., 2011).

Previous research has shown that more ethical and environmental disclosure decreases equity and debt costs and can lead to increased access to financing (Cheng et al., 2014; Easley and O'Hara, 2004). In this sense, ESG disclosure is critical in determining corporate valuation and, as a result, the rate of return expected by shareholders and the cost of debt. Therefore, transparency rules and ESG disclosure can reduce a company's financing costs by reducing information asymmetry (Lopatta et al., 2016; Hassan, 2018;

Xu et al., 2015). In addition, information asymmetry is likely to be more severe in firms with low ESG disclosure, and greater ESG disclosure leads to lower cost of debt (El Ghoul et al., 2011).

The effect of ESG information on lenders and investors could be different depending on certain aspects. ESG could be a signal of sustainability in the long term. Lenders and long-term investors appreciate companies with better ESG disclosure, which could have an impact on lower financing costs related to the COD and COE (Bhuiyan and Nguyen, 2019; Du et al., 2017; Hamrouni et al., 2019; Raimo et al., 2021; Suto and Takehara, 2020). On the other hand, short-term investors or lenders are likely to value ESG disclosure negatively when deciding to invest or lend, applying exclusively financial criteria (Boachie and Tetteh, 2021; Magnanelli and Izzo, 2017). In this case, ESG disclosure would increase the COD and the COE.

ESG disclosure is related to transparency and shows the company's ethical commitment. It is assumed that there should be consistency between ESG disclosure and management reliability, reducing information asymmetry and helping lenders and investors make decisions (Gerwanski, 2020). In addition, the capital market and lenders take cash flow into account when making decisions, and significant variations in its components can generate mistrust (Orazalin and Akhmetzhanov, 2019). Real earnings management would negatively impact and affect the evaluation of investors and lenders (Hadani et al., 2011; Kothari et al., 2015). Earnings management could harm the value of the company and the perception of stakeholders, worsen the company's relations with stakeholders, and damage the image and reputation of the entity (Gras-Gil et al., 2016), thereby counteracting or weakening the effect of ESG.

Misleading practices and management should disappear when there is a strong commitment to ESG disclosure (Chouaibi and Zouari, 2022; Martínez-Martínez et al., 2021). However, companies that manipulate earnings data to show higher cash flow and profits could use ESG disclosure to cover up this manipulation to mislead investors and lenders. Earnings management, if perceived by financiers, could moderate the effect of ESG disclosure on the COD and COE. Lenders and investors could question the disclosed

ESG information and alter the cost of financing (Gao et al., 2020b; Jaggi et al., 2009). Companies may disclose even more information about their ESG activities in an attempt to counter the negative effects of earnings management and could use ESG disclosure opportunistically (Jadiyappa et al., 2021) and take advantage of the reputation and legitimisation effect to cover up their manipulative management and mislead lenders and investors (Muttakin et al., 2015). Therefore, earnings management could affect the reliability and trustworthiness of ESG information. Lenders and investors may come to realise that ESG disclosures are intended to legitimise and counteract the impact of fraudulent practices.

The relationship between ESG disclosure and the COD and COE could be discussed according to different theoretical frameworks. The most frequently used are legitimacy theory, which delves into the contract between society and business, where entities seek to receive society's approval to operate through their actions (Deegan et al., 2002); agency theory, which focuses on the relationship between principal and agent, which would be appropriate if the aim was to understand the relationship between a manager and investors (Jensen, 1994); or stakeholder theory, which refers to a company's actions aimed at meeting and balancing the demands of its stakeholders (Freeman, 1999). Conversely, institutional theory encompasses and justifies the behaviours of companies from a global perspective. Institutional theory explains that companies are influenced by pressures coming from three basic pillars: regulatory, normative and cognitive. The legal domain establishes formal rules, the normative domain is understood as the set of moral and cultural norms, and the cognitive domain refers to the perception of organisational legitimacy (Koster et al., 2019; Qiao and Wu, 2019; Scott, 2008). According to this theory, companies adopt voluntary ESG standards to detect, reduce, eliminate and control the negative impact of their operations and, in this way, comply with the moral and cultural norms established with respect to business operations.

Legitimacy theory best fits our approach as it understands that ESG disclosure could be considered a strategic option for companies to show social responsibility in order to legitimise their activities and provide a positive impression to investors and lenders. On the other hand, companies have an incentive to manage the stakeholders' perception of

their image and reputation by presenting themselves in the most favourable way possible to improve or repair their corporate image in relation to society (Osma and Guillamón-Saorín, 2011). Thus, managers consider ESG information disclosure as a way to influence the stakeholders' decision-making process (Kanbaty et al., 2020). In this study, we propose a negative association between ESG disclosure and COD and COE because we expect both lenders and investors to use ESG information disclosure to reduce information asymmetry, assess risks, and, hence, lower the cost required from businesses.

The main findings are, first, that the effect of ESG on COD and CEO is different, i.e., lenders and investors have different objectives. The relationship between ESG and COE depends on whether investors have short- or long-term objectives. Lenders, for their part, value ESG information. Second, the existence of REM practices moderates the relationship between ESG and COE and COD. In the case of lenders, it weakens the relationship between ESG and COD, and in the case of investors, it strengthens the relationship between ESG and COE. In either case, both lenders and investors react to the existence of REM.

The study contributes to the existing literature by adding new evidence of how lenders and investors consider ESG disclosure when they decide to lend or invest, taking into account factors that can help stakeholders assess the reliability of ESG information. The research of this chapter focuses on Europe, and there might be differences with other cultures and regulatory frameworks (Erragragui, 2018; Hamrouni et al., 2019; Hasan et al., 2017). The study contributes to knowledge of how legitimacy theory influences the reaction of lenders and investors to the use of ESG to counteract misleading practices.

The rest of the chapter is organised as follows. The second section concerns the regulatory framework of ESG and ESG reporting in Europe we mention ESG because it is the primary picture of sustainability and we use ESG as a measure in our study which is the most updated report and is the available form of sustainability report in the databases. The third section reviews the literature and proposes hypotheses. The sample, data sources, and research methodology are presented in Section 4. Section 5 presents the results and discussion. Finally, the conclusion are in the following section.

6.2 The Regulatory Framework of ESG and ESG Reporting in Europe

Over the years, we have seen the growing interest of governments and organisations in regulating ESG and ESG issues. International organisations have put out standards, guidelines, principles, or rules to enhance and standardise this information, such as the Global Reporting Initiative (GRI) and the International Organization for Standardization (ISO), as have state organisations with standard-setting authority, like the Organization for Economic Cooperation and Development (OECD) (Balzarova and Castka, 2018; Barakat, 2015).

Along the same lines, the EU has promoted a combination of voluntary and mandatory actions that seek to promote ESG; the guidelines are a response to the Sustainable Development Goals adopted at the United Nations Sustainable Development Summit. More significantly, we can highlight that since July 2001, when the Green Research "Promoting a European Framework for Corporate Social Responsibility" was published, the European Commission has increased its communications and initiatives on corporate social responsibility (ESG) (Eberhard-Harribey, 2006). ESG legislation continued to develop, and in April 2014, the European Union enacted a law requiring "disclosures of non-financial and diversity information" for large firms. The 2014/95/UE Non-Financial Reporting Directive went into effect on January 1, 2017, for all fiscal years beginning on or after that date. The rule was designed particularly for companies that are listed on EU markets or have major operations within the EU. According to the ESG directive, businesses must include a non-financial statement in their annual management report outlining how their "development, performance, and position" and activities have affected "environmental, social, and employee matters, respect for human rights, [and] anti-corruption and bribery matters".

The wide range of international guidelines, frameworks and standards has not always been effective in managing sustainability risks with a purely voluntary approach (Camoletto et al., 2022). In the EU, concern for environmental issues has led to steps being taken to make sustainability reporting mandatory. In the near future, this will apply not only to large companies but also to small ones. Thus, the European Commission has proposed a set of European Sustainability Reporting Standards (ESRS) under the Corporate

Social Responsibility Disclosure (ESGD) legislation. Companies have to apply in 2024 and publish a sustainability report in 2025.

6.3 Literature Review and Hypothesis Proposal

6.3.1 The Effect of ESG Disclosure on the Cost of Debt

Previous literature has studied the COD in relation to different aspects. For example, in terms of earnings quality, it has been argued that better management practices improve external financing by obtaining lower costs (Gerwanski, 2020; Kim and Sohn, 2013; Li et al., 2022; Rahaman and Al Zaman, 2013). Similarly, firms with more timely and accurate accounting information obtain lower debt costs (Chen and Zhu, 2013; Eliwa et al., 2019). Qualitative aspects such as lawsuit risk in corporate financing (Arena, 2018) or credit risk in family firms (Gao et al., 2020a) have also been examined, revealing that higher lawsuit or credit rating risks lead to a higher COD.

The COD could also be related to ESG disclosure. The increasing demand for and attention paid to social and environmental reporting, which has led to increased awareness of corporate social, environmental, and reputational risks, may also be considered by lenders. There is pressure on companies to disclose ESG information (Eliwa et al., 2021), which would improve information transparency (Boiral, 2013) and decrease information asymmetry for external users. The literature regarding the relationship between ESG disclosure and COD is contradictory. ESG disclosure could reduce the COD (Cao et al., 2015) by improving reputation (Hsu, 2012; Perez, 2015), reducing information asymmetry (La Rosa et al., 2018; Martínez-Ferrero et al., 2016a; Zheng, 2021), improving earnings quality by decreasing earnings management (Garcia-Sanchez and Garcia-Meca, 2017), and ensuring long-term sustainability.

The cost of borrowing is related to financial risk, which is measured through credit ratings; a better credit rating usually leads to a lower COD. Although credit ratings are linked to financial indicators and corporate creditworthiness, they increasingly take into account ESG disclosures (Attig et al., 2013; Flórez-Parra et al., 2020). ESG information allows a greater assessment of the risks—social, environmental, and governance—

affecting companies (Erragragui, 2018). Positive ESG scores can improve a company's credit rating, potentially leading to a reduction in its COD (Hamrouni et al., 2019; La Rosa et al., 2018; Yeh et al., 2020; Zheng, 2021; Zhou et al., 2018).

Based on legitimacy theory, ESG disclosure could be considered a strategic option to improve sustainability performance and can indirectly also improve financial performance by reducing the cost of financing. Integrating sustainability and financial information could improve management and business performance in practice (Boiral, 2013). As a result, stakeholders, especially lenders, will have a lower perception of risk and, consequently, will impose a lower COD; thus, the following hypothesis arises:

H1: There is a negative relationship between ESG disclosure and COD.

6.3.2 The Effect of ESG Disclosure on the Cost of Equity

The COE is a crucial factor in long-term investment decisions (El Ghoul et al., 2011). Investors determine their required rate of return by measuring a company's risk relative to alternative investment opportunities. In investors' asset valuation models, information disclosure reduces their estimation of risks and uncertainties (Lambert et al., 2007). Disclosure reduces information asymmetry between investors and managers. Sustainability information has improved considerably in recent decades. Companies that disclose a high level of ESG information make better analysis possible, leading to a lower level of information asymmetry, which reduces the level of risk perceived by investors, which could have an impact on lowering the COE (He et al., 2013; Kazemi and Rahmani, 2013). In addition, increased transparency could decrease monitoring costs for investors, resulting in a higher rate of return on equity holdings (Lombardo and Pagano, 2002). ESG disclosure affects the image and reputation of the entity, which could have an impact on obtaining cheaper capital costs (Cao et al., 2015; Dhaliwal et al., 2014; Reverte, 2012; Zhou et al., 2018). If ESG disclosure helps to reduce the COE, firms will be more motivated to engage in it (El Ghoul et al., 2018; Ok and Kim, 2019; Tseng and Demirkan, 2021; Yoon et al., 2018).

Previous studies have focused almost exclusively on examining financial disclosure and COE (Embong et al., 2012; Ng and Rezaee., 2015; Weber, 2018), but a significant volume of corporate disclosure today concerns sustainability. This data is not shown in financial statements and is critical to assessing disputes and operational risks and helping to determine the value of the business. Given that financial transparency has been shown to affect the COE (Dhaliwal et al., 2014), it is logical to ask how sustainability disclosure affects the COE.

Within the framework of legitimacy theory, ESG disclosure can be seen as a method to improve the company's relationship with shareholders and stakeholders by decreasing the likelihood of negative incidents or controversies that may affect the company's reputation, such as lawsuits, damaged products, or environmental scandals (El Ghoul et al., 2011, 2018). Consequently, ESG disclosure could be considered a legitimisation tool (Kim et al., 2012; Krüger, 2015). However, we have to keep in mind that if companies aim to maximise shareholder wealth, ESG disclosure inevitably entails costs. In this case, the relationship between ESG disclosure and the COE would be positive (Lins et al., 2015; Magnanelli and Izzo, 2017; Menz, 2010). If it is supposed that investors act with long-term sustainability criteria and not only short-term profitability in mind, a negative relationship between ESG disclosure and COE is expected (Chouaibi and Zouari, 2022). Investors with short-term objectives may demand a higher return or require a higher cost of capital in response to increased ESG actions because these involve costs for the company. In this case, the relationship between ESG and COE will be positive.

Following the legitimacy theory and supposing an investor has long-term sustainablity objectives, the proposition is that ESG disclosure provides a better perception of the company to investors and builds trust by allowing them to assess the risks that affect or may affect companies; it can be seen as a method for improving investor relations (Cho et al., 2013). Consequently, investors might demand a lower cost of capital from companies with better ESG disclosure. Accordingly, we formulate the following hypothesis:

H2: There is a negative relationship between ESG disclosure and COE.

6.3.3 The Moderating Effect of Real Earnings Management on the Relationship Between ESG Disclosure and the Cost of Debt and Equity

Our study investigates a potential negative relationship between ESG disclosure and COE and COD based on the assumption that investors and lenders trust ESG information. One aspect that may qualify the decision or raise doubt about the reliability of the information disclosed is that stakeholders may discover that the company is managing earnings (Chouaibi and Zouari, 2022). The capital market and lenders could react to the real earnings management (REM) undertaken by firms; specifically, it could lead them to reevaluate the reliability of ESG disclosure.

REM could affect ESG disclosure's impact, COD, and COE. REM practices seek to hide organisations' true performance and, consequently, affect the quality of reported earnings (Cohen and Zarowin, 2010; Hong and Andersen, 2011; Zang, 2012). Conscious investors and creditors may be able to detect the impact of REM on the cost of equity and the cost of debt (Chouaibi and Zouari, 2022); thus, it has been found that the cost of equity and the cost of debt are positively associated with REM (Kim and Sohn, 2013). This implies that the market is more inclined to punish REM actions with very high equity costs and higher interest rates. In addition, distrust of a company's financial reporting can affect stakeholders' perceptions of ESG reporting and moderate its effect on the cost of equity and the cost of debt.

Companies that apply REM strategies to show better earnings and obtain lower financing costs might use ESG disclosure as a technique to conceal their manipulative activities. Following the legitimacy theory, two possibilities arise. First, companies that disclose ESG are more likely to act reasonably to maintain their good reputation and avoid the risk of litigation affecting firm value (Gras-Gil et al., 2016; Martinez-Martinez et al., 2021), so they are less likely to engage in earnings management (Kim et al., 2012). Second, ESG disclosures could be used to cover up misconduct, improve a company's image before stakeholders, or present better performance to attract investors and obtain cheaper financing (Muttakin et al., 2015). In this case, ESG disclosure is used opportunistically to

deceive stakeholders (Muttakin et al., 2015; Scholtens and Kang, 2013). In this situation, REM would moderate (reinforce or weaken) the relationship between ESG disclosure and COD and COE. A demonstrated moderating effect of REM in the relationship between ESG disclosure and the COD and COE would highlight that investors and lenders penalise inconsistency between earnings management and ESG disclosure. It would indicate that lenders and investors understand that ESG disclosures are being used to legitimise and counteract the impact of fraudulent practices. This would lead to the ESG information being regarded as unreliable, resulting in a positive relationship between ESG disclosures and the cost of financing from both lenders and investors. The consistency of ESG disclosure is an important research topic to help lenders and capital market investors make decisions.

Accordingly, when companies disclose ESG practices to legitimise themselves in the eyes of creditors and investors and simultaneously use REM to show higher earnings, ESG disclosure is considered an opportunistic tool and may be perceived as such by investors and creditors. Because social standards influence investor preferences, organisations that disclose ESG may attract a larger investor base. ESG disclosure enhances a firm's reputation and reduces the cost of financing (Martínez-Ferrero et al., 2015), but, on the other hand, REM undermines the firm's reputation and raises the cost of financing. As a result, executives face a debased firm image, lower competitiveness, and greater financing costs.

In this sense, the COD should be positively related to REM, and, in turn, REM should positively moderate the relationship between ESG disclosure and the COD (Ge and Kim, 2014; Houqe et al., 2017; Kim et al., 2020; Shen and Huang, 2013). Firms with lower accounting quality bear a higher COD (Bharath et al., 2008; Prevost et al., 2008) and may produce some distrust in the reliability of their sustainability information. Moreover, deviation from operations to increase profits has a negative impact on future earnings (Cohen and Zarowin, 2010; Leggett et al., 2009; Zang, 2012) and thus on long-term sustainability.

In turn, the COE would be positively related to the degree of REM, suggesting that REM activities increase the COE because the resultant immediate increase in cash affects the firm's future cash flow (Houqe et al., 2017; Kim and Sohn, 2013). REM practices have short-term objectives and, in a way, act against the firm's long-term sustainability. If we assume that investors have a long-term view, REM and ESG disclosure would have the opposite effect. In that sense, REM would positively moderate the relationship between ESG disclosure and COE. REM has a negative impact on information quality and leads to a distortion of cash flow that could affect market assessment (Hadani et al., 2011; Kothari et al., 2015). Based on the above, the following hypotheses are proposed:

H3: REM positively moderates the relationship between ESG disclosure and COD.

H4: REM positively moderates the relationship between ESG disclosure and COE.

6.4 Methodology

6.4.1 Data and Sample

The sample consists of 1,820 company-year observations from 210 European companies that were part of the FTSE4Good index from 2010–2019. The aim is to analyse the period of relative stability between the global economic crisis of 2007 and the 2020 pandemic. We obtained the data from the Refinitiv Eikon database and each company's financial reports. The sample does not include companies from the financial and insurance sectors (La Rosa et al., 2018; Martínez-Ferrero et al., 2016b). The exclusion of financial institutions is due to accounting and, in general, industry peculiarities (Anastasiou et al., 2022). The sample distribution is shown in Table 9.

Table 9. Sample distribution by sector and country

Sector	Number of firms by sector	Country	Number of firms by country
Electric utilities and technology	42	NETHERLAND	9
Textiles	6	GERMANY	23
Transport and infrastructure	7	UK	33
Aerospace	2	FRANCE	33
Containers and packaging	4	SWISS	10
Food and tobacco	21	SWEDEN	11
Metals and mining	8	NORWAY	4
Freight and logistics	3	ITALY	9
Construction	12	SPAIN	11
Pharmacy and medicine	20	PORTUGAL	3
Media	4	DANEMARK	3
Oil and gas	15	AUSTRIA	3
Hotels	3	RUSSIA	11
Multiline utilities	6	FINLAND	4
Professional and commercial sector	5	POLAND	2
Automobile	15	BELGIUM	4
Water	2	GREECE	1
Research and forest products	2	CZECH REPUBLIC	1
REITs	1	IRELAND	2
		LUXEMBOURG	1

6.4.2 Measurement of Variables

To measure ESG disclosure, we use the score given in the Refinitiv Eikon database, which is ranked from 0 to 1. The ESG score is an overall company score based on self-

reported information in the environmental (ENV), social (SOC), and corporate governance (GOV) pillars. The measure provided by Refinitiv Eikon takes into account 178 indicators, where 61 are related to environmental issues (resource use reduction, emission reduction and innovation); 63 are related to human resources and society (human rights and product responsibility); and 54 are related to governance (good management practices, shareholder protection and ESG strategy). This is a quantitative measure that indicates the degree of transparency and scope in reporting ESG data. For the COD, we follow Francis et al. (2005) by calculating it as the percentage of the interest expense in year t divided by the average interest-bearing debt during year t (Boachie and Tetteh, 2021; Yeh et al., 2020). For the COE, we use the CAPM model of Sharfman and Fernando (2008), which considers the expected return on equity as an indicator of the cost of capital. The CAPM is given by the following equation:

$$Eri = Rf + \beta i\ (ERm-Rf)\ (1),$$

where ERi = expected return on investment, Rf = risk-free rate, βi = investment beta (systematic risk of a security or portfolio compared to the market as a whole), and (ERm-Rf) = market risk premium.

REM is measured through abnormal cash flows (AOCF) following the proposal of Dechow et al. (1998) and according to the following equation:

$$CFOt/At\text{-}1 = \alpha 0 + \alpha 1*(1/At\text{-}1) + \beta 1*(St/\ At\text{-}1) + \beta 2*(\Delta St\ /\ At\text{-}1) + \varepsilon t\ (2),$$

where CFOt/At-1 = cash flows from operating activities in year t divided by total assets in year t-1, At-1 is the total assets in year t-1 so that the cash flow from operating activities does not have a value of 0 when sales and sales lag is 0, (St/At-1) = net sales in year t divided by total assets in year t-1, (ΔSt /At-1) = the change in sales of firm i (sales in year t and sales in year t-1) divided by total assets in year t-1, and εt = the residual of the regression model considered as the abnormal operating cash flow (AOCF).

Following similar studies, we introduce some financial control variables that could affect the COD and COE: specifically, the market-to-book ratio (MTB), return on assets (ROA), financial leverage (LEV), firm size (SIZE), and sector of activity (Industry). MTB measures the market valuation of the company relative to book value. Companies with high

MTB could be expected to have lower financing costs to the extent that they present additional value over book value, which implies lower financial risk (Bhuiyan and Nguyen, 2019; Boachie and Tetteh, 2021; Erragragui, 2018; Hasan et al., 2017). ROA measures are included because default risk is lower for profitable firms and could reduce borrowing costs and the required rate of return (Arena, 2018; Boachie and Tetteh, 2021; Erragragui, 2018). LEV measures are also related to financial risk. Firms with higher leverage ratios have, on average, higher default risk and thus could be expected to have higher COD and COE (Hasan et al., 2017; Rahaman and Al Zaman, 2013; Tseng and Demirkan, 2021; Yeh et al., 2020). SIZE is measured by the natural logarithm of total assets. Regulatory requirements are higher for large firms than for smaller ones, and, therefore, there would be less informational asymmetry between a large firm and its lenders and investors, leading to more favourable contract terms for such firms (Boachie and Tetteh, 2021; Erragragui, 2018; Hasan et al., 2017; Tseng and Demirkan, 2021). Industry can affect the cost of financing. In the context of this chapter, where social and environmental factors are considered, the sectors are introduced as a control variable and take the value 1 in the case of activities performed in a sector with a strong environmental impact and 0 otherwise (Boachie and Tetteh, 2021; Rahaman and Al Zaman, 2013; and Yeh et al., 2020) (see table 10).

Table 10. Definition of variables and hypotheses

Dependent variable			
Cost of debt (COD)	**Interest Expense$_t$ / interest bearing debt outstanding$_t$**	**Model (1)***	**H1**
		Model (2)**	**H3**
		Model (3)*	**H2**
Cost of equity (COE)	**The required rate of return on investment from equation 1.**	**Model (4)****	**H4**
Independent variables			
Environment, Social and Corporate Governance (ESG)	ESG score from 0 to 1		
Abnormal operating cash flow (AOCF)	Actual operating cash flow- normal operating cash flow that resulted from equation 2.		
Control variables			
Market to book (MTB)	Market/ book value		
Performance (ROA)	Profit/Total assets		
Leverage (LEV)	Total debt/ total assets		
Size (SIZE)	Natural logarithm of total assets.		
Industry (Industry)	Dummy variable equal 1 for companies in sectors with a high environmental impact and 0 otherwise		

*Models 1 and 3 do not take into account the moderating effect of AOCF on the relationship between ESG and the cost of financing (COD and COE).

**Models 2 and 4 consider the moderating effect of AOCF on the relationship between ESG and the cost of financing (COD and COE).

6.4.3 Measurement of Variables

The models we propose to test the hypotheses are as follows:

$$\mathbf{COD_{i,t} = a_{it} + B_1 ESG_{it} + B_2\, AOCF + B_3\, MTB_t + B_4\, ROA + B_5\, LEV_{it} + B_6 SIZE_{it} + B_7\, Industry + u_{i.}} \quad \mathbf{(1),}$$

$$\mathbf{COD_{i,t} = a_{it} + B_1 ESG_{it} + B_2\, ESG*AOCF + B_3\, AOCF + B_4\, MTB_t + B_5\, ROA_{it} + B_6\, LEV + B_7 SIZE_{it} + B_8\, Industry + u_{i.}} \quad \mathbf{(2),}$$

$$COE_{i,t} = a_{it} + B_1 ESG_{it} + B_2\, AOCF + B_3\, MTB_t + B_4\, ROA + B_5\, LEV_{it} + B_6 SIZE_{it} + B_7\, Industry + u_i. \quad (3),$$

$$COE_{i,t} = a_{it} + B_1 ESG_{it} + B_2\, ESG*AOCF + B_3\, AOCF + B_4\, MTB_t + B_5 ROA_{it} + B_6\, LEV + B_7 SIZE_{it} + B_8\, Industry + u_i. \quad (4),$$

where COD is the cost of debt, COE is the cost of equity, ESG is the environmental, social and governance disclosure measure, MTB is the market-to-book value ratio, ROA is the return on assets, and LEV is financial leverage.

The result of the Durbin-Wu-Hausman test revealed that the fixed-effects panel data analysis fits our model (p = 0.0020). We tested for multicollinearity, heteroscedasticity, and autocorrelation problems using the variance inflation factor (VIF), the Wald test, and the Wooldridge test, respectively. On the one hand, regarding multicollinearity, the results show VIF values between 1 and 2, which means that we do not have multicollinearity problems to correct (Le et al., 2021) (see Table 3). On the other hand, we detected problems of heteroscedasticity and autocorrelation. The null hypothesis of homoscedasticity and no autocorrelation could not be accepted since the Wald and Wooldridge tests yielded a p-value of .000. Likewise, endogeneity was tested for by means of the Hausman test, and the results (p = 151.5311) show that the sample did not present endogeneity problems.

To avoid the above problems of heteroscedasticity and autocorrelation, which make the panel fixed effects regression model inapplicable, we used the generalised least squares regression model (FGLS) to estimate Equations 1 to 3. FGLS allowed us to obtain robust estimates in the presence of heteroscedasticity and contemporaneous correlation between variables (Arco-Castro et al., 2023) and introduce the moderating effect of real earnings management by multiplying AOCF with ESG disclosure (Equation 2 for COD and Equation 4 for COE, respectively).

6.5 Results and Discussion

The descriptive statistics of the variables are shown in Table 11

Table 11. Descriptive statistics of the variables (n=1,659)

Variable	Media	Std. Dev.	Min	Max	VIF
COE	0.1168	0.1055	0.0010	1.1484	
COD	0.1145	0.9567	0	27.4575	
ESG	0.7205	0.1677	0.0833	1	1.89
AOCF	-0.7204	0.5931	-8.1018	0.7044	1.00
MTB	2.7995	4.0746	-83.617	45.3840	2.11
ROA	6.1329	5.6240	-19.85	48.633	2.38
LEVERAGE	27.4025	14.975	0	113.72	1.53
SIZE	17.0670	1.0476	14.6006	20.1201	1.14
Industry	0.5692	0.4953	0	1	1.02

As for the dependent variables, the results reveal that the average COD and COE are relatively equal at 11.45% and 11.68%, respectively.

The mean value of the ESG variable suggests that most of the companies in our sample are committed to ESG disclosure. According to the mean AOCF, most companies in the sample manage real earnings by originating abnormal operating cash flows.

Table 12 shows the bivariate correlations between the variables.

Table 12. Correlations between variables

	COD	***COE***	***ESG***	***AOCF***	***MTB***	***ROA***	***LEV***	***SIZE***	***IND***
COD	1								
COE	0.0037*	1							
ESG	-0.0356*	0.0195*	1						
AOCF	0.0537*	0.0090*	0.0727*	1					
MTB	-0.0051	-0.0255	0.0097	-0.1306*	1				
ROA	0.0022	-0.0110	-0.0531*	-0.1569*	0.3873*	1			
LEV	0.0768*	0.1247*	0.0315	0.3368*	-.0592*	-0.2416*	1		
SIZE	-0.0363	0.0073	0.3849*	0.2008*	-0.2551*	-0.1945*	0.0715*	1	
IND	-0.0143	-0.0120	0.0829*	0.0159	0.0451*	0.1186*	0.0815*	-0.0777*	1

Significance levels: * p < .10 **p < .05, ***p < .01.

COD and COE are positively and significantly related, indicating that the market may consider the COD to establish the cost of capital. Note that the COD may be an

indicator of perceived financial risk for investors. COD and ESG information has a statistically significant negative relationship (-0.0356). However, COE and ESG disclosure have a statistically significant positive association (0.0195). These results show that lenders and investors have opposing valuations of ESG disclosure. AOCF has a significant positive correlation with COD (0.0537) and COE (0.0090), indicating that the cost of funding increases when lenders and investors observe earnings management practices by companies. It is noteworthy that AOCF is positively and significantly related to ESG disclosure, showing that the greater the earnings management, the greater the ESG disclosure, perhaps to counteract the impact of unethical practices.

Table 13 shows the results obtained from the regression analyses.

Table 13. Regression analysis results

	COD		**COE**	
	Model 1	Model 3	Model 2	Model 4
ESG	-0.06242 -4.11***	-0.51728 -2.02***	0.015792 1.13*	0.026 1.65**
ESG*AOCF		-0.50506 -1.57*		0.01313 2.08***
AOCF	0.01575 4.22**		0.006705 1.72*	
MTB	-0.0006 -0.95	-0.000002 -0.02	-0.00041 -1.4	-0.00034 -1.18
ROA	-0.00043 -0.85	-0.00544 -0.97	-0.00065 -1.41	-0.00067 -1.46
LEVERAGE	-0.0007 -3.51***	-0.001011 -0.39*	-0.00097 -4.43***	-0.000997 -4.28***
SIZE	0.001857 0.82	0.025631 0.59	-0.00123 -0.5	-0.00163 -0.68
Industry	-0.00946 0.00473	0.049961 0.36	0.0000006 0.01	0.000367 0.06
_cons	0.171459 4.18***	-0.15861 -0.19***	0.164494 3.65***	0.157504 3.49***
Wald chi2(7)	34.32***	74.4***	25.33***	41.09***
Prob > chi2	0.0000	0.0000	0.0000	0.0000

Significance levels: * p < .10 **p < .05, ***p < .01.

Regarding COD before accounting for the moderating effect of AOCF, Model 1 shows a negative and statistically significant relationship between the explanatory variable ESG disclosure and COD, verifying H1 (Bhuiyan and Nguyen, 2019; Raimo et al., 2021; Yeh et al., 2020; Zheng, 2021). This implies that companies with higher ESG disclosure pay lower interest rates on their debt. A positive relationship between AOCF and COD is also apparent, indicating that when lenders observe abnormal outcomes, they increase the cost of financing (Kim et al., 2020; Shen and Huang, 2013). In Model 2, AOCF is introduced as a moderating variable. The negative effect of ESG disclosure on the COD remains upon introducing AOCF as a moderating variable, although it decreases in significance, which means that the moderating effect of AOCF adjusts but does not fully counteract the effect of ESG disclosure on the cost of borrowing (Bharath et al., 2008; Prevost et al., 2008), disproving H3. Although the incidence decreases, the negative relationship between ESG disclosure and COD remains, indicating that ESG disclosure distorts lenders' perception and is used opportunistically to counteract the potential effect of earnings management. Even if the company conducts earnings management, lenders rely more on the quality of information from companies committed to ESG disclosure, negatively impacting the COD.

As for COE, Model 3 shows a positive and significant relationship between the explanatory variable ESG disclosure and COE. The results show that investors demand higher COE from companies with a higher level of ESG disclosure, disproving H2 (Lins et al., 2015; Magnanelli and Izzo, 2017; Menz, 2010). These results may reflect investors having a short-term view and not valuing ESG information more oriented to long-term sustainability or distrusting such information, perceiving it as a way to hide or counteract conflicting actions. A positive and significant relationship between AOCF and COE is observed, indicating that investors penalise earnings management practices (Houqe et al., 2017; Kim and Sohn, 2013). The market demands a higher risk premium as a result of the additional risk caused by real earnings management activities. As a result, the COE increases. In Model 4, we incorporate AOCF as a moderating variable and, as expected, AOCF moderates the effect of ESG disclosure on COE (Houqe et al., 2017; Kim and Sohn, 2013), proving H4. The fact that the entity manipulates its operating cash flows reinforces the investors' stance by increasing COE. When AOCF exists, the results seem to confirm

that investors understand that ESG disclosure is an attempt to hide accounting manipulations. Earnings management entails a loss of information quality, and ESG disclosure, in turn, tries to disguise or hide this bad practice. The dampening effect of earnings management on ESG disclosure leads to a higher COE.

In terms of control variables, LEV has a negative impact on the cost of financing, both in the case of COD and COE, possibly indicating that investors obtain advantages from indebtedness and lenders could decrease the COD whether or not the company regularly pays off all of its commitments (Hasan et al., 2017; Tseng and Demirkan, 2021; Yeh et al., 2020). The ROA and MTB ratios do not affect the cost of funding, nor does the size of the entity or the sector in which the company operates have an impact on the models.

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7. Conclusions

7.1 Conclusions

The incorporation of ESG into the core strategies of companies implies a long-term vision and a commitment to stakeholders. Real earnings management is related to pressures to achieve current earnings and meet short-term objectives, but this is contrary to future competitiveness (Cohen and Zarowin, 2010) and long-term value. In this sense the objectives pursued by real earnings management are contrary to the objectives of ESG strategies and its disclosure, which aim for long-term sustainability. In addition, there must be coherence between ESG practices and financial policies in two senses, decreasing earnings management and developing economic practices to favour stakeholders.

This research also aims at assessing the relationship between tax practices and ESG disclosure in the sense of whether these practices are used to benefit stakeholders or to mislead them, and whether financial status has a moderating effect on the relationship between ESG disclosure and tax practices. The results show that ESG disclosure is sometimes used opportunistically in relation to earnings management to hide tax avoidance practices or to act on operating cash flows.

Besides as previous literature has shown that financial transparency affects the cost of financing. This research attempts to identify how sustainability disclosure affects cost of debt (COD) and cost of equity (COE). Although a priori, one might think that financiers evaluate companies by taking into account the same parameters and, therefore, would have the same policies and requirements regarding ESG disclosure and transparency, the regression results indicate that the valuation of ESG disclosure and its effect on the cost of funding is different for lenders and investors. This has practical implications for companies when seeking finance.

The companies analysed showed strong ESG disclosure despite high values for real earnings management. Companies were aware that real earnings management can have a number of adverse effects on their sustainability as well as on long-term value creation and the company image (Gras-Gil *et al*., 2016). A contribution of this research is that

consistency between ESG and financial practices has not yet been achieved, but some results are being achieved. Perhaps the most achieved results are in relation to abnormal operating cash flow (AOCF) and expenditures, but the results show that ESG is sometimes used to legitimize performance, improve image and mislead stakeholders. Financial objectives take precedence over social and environmental objectives. In the practices applicable to customers and suppliers and that affect working capital, the results show that there are no consistent actions that try to favour them or improve the commitment of these stakeholders.

Our research supports the results obtained in previous studies that have analysed both variables and observed that the higher the ESG disclosure, the lower the real earnings management related to AOCF (Alsaadi *et al*., 2017; Christensen, 2016; García-Sánchez and García-Meca, 2017; Martínez-Ferrero *et al*., 2016). However, the added value of this research comes from the fact that we have considered several magnitudes that make up operating cash flow, enabling a more in-depth analysis of earnings management. The results show that there is ample margin for improvement. Entities follow the standards that have been set institutionally and included in accepted guidelines. This has been a great step forward, but the economic dimension of ESG does not take into account measures for all stakeholders and the financial policies of companies. In this sense, the firm measures in relation to customers and suppliers are aimed at reducing working capital and improving the financial position, not at favouring the interests of these stakeholders. The control of real earnings management is more deficient in relation to the capital market, showing that a more short-term vision of giving an image of solvency is more important in the relations.

While real earnings management has often been studied in relation to accrual management, this research also considered practices aimed at influencing working capital. This is an important contribution of our research because real earnings management can be done through expenditures and, in addition, acting on collections and payments terms. Thus, additional models have been proposed to analyse the relationship between ESG disclosure and the effect of accelerating customer collections and delaying payments to suppliers. A finding of the research is that some of these practices could be used to benefit specific interest groups from a ESG perspective, but the results show that this is only

feasible when firms have high profitability delay customer collection. This social commitment has not been transferred to all stakeholders. The research shows that companies did not try to favour suppliers.

Furthermore, despite a strong relationship between real earnings management in situations of financial uncertainty and the concern for short-term survival, our study has demonstrated how this situation could be countered by engaging in ESG policies and strategies that take all stakeholders into account. This reinforces the relationship with customers and suppliers. The results showed that the role that ESG disclosure plays in the reliability of accounting information is beginning to change. If we do not consider the moderating effect of financial indicators on ESG disclosure, the financial indicators analysed influence real earnings management.

On the other hand, since corporate taxes are part of state revenues, avoiding tax payments would negatively affect society's perception of companies (Park, 2017). According to the results, permanent tax differences would be identified with the consideration of the company as a good citizen because the company would be contributing directly to society through philanthropic, social, and environmental practices while being able to perform actions in line with its ethical commitments. However, companies that would seek to avoid taxes by using temporary differences would be seen as bad citizens, highlighting the lack of consistency between their social and environmental commitments and tax obligations (Gulzar et al., 2018; Lanis and Richardson, 2012; Park, 2017). Perhaps this is why companies use other ways to manipulate earnings.

It is necessary to differentiate between two different types of tax practices which give rise to temporary and permanent differences. Companies can use the opportunities provided by tax regulations to apply resources to address social issues or problems by engaging in philanthropic initiatives and making direct contributions to society. These activities give rise to permanent differences. Temporary differences arise from the application of the accrual principle to transactions, trying to pay less taxes. Analysts and investors interested in corporate tax avoidance practices should be aware that even when a

company has high profitability and pays less tax, this could be the result of smoothing practices.

With respect to the financial variables, the findings do not show a significant impact of profitability on the relationship between ESG disclosure and permanent tax differences. However, consistent with legitimacy theory, highly profitable firms try to avoid taxes and may engage in ESG disclosure activities to mislead users (Chen et al., 2010; Dunbar et al., 2010). As for leverage, it does not affect the relationship between ESG disclosure with either permanent or temporary differences. Perhaps firms do not consider leverage's effect in their tax practices.

In regard to the cost of financing, lenders value ESG disclosure positively, reducing COD (Bhuiyan and Nguyen, 2019; Hamrouni et al., 2019; Yeh et al., 2020; Zheng, 2021). ESG information allows a greater assessment of the risks—social, environmental, and governance—affecting companies (Erragragui, 2018). Its disclosure results in an improvement in a company's credit rating, which is related to a reduction in its COD (Hamrouni et al., 2019; La Rosa et al., 2018; Yeh et al., 2020; Zheng, 2021; Zhou et al., 2018). On the other hand, investors value ESG disclosure negatively and respond by increasing the COE (Lins et al., 2015; Magnanelli and Izzo, 2017; Menz, 2010). Better ESG information disclosure provides a better perception of risks that affect or may affect companies and decreases information asymmetry (Cho et al., 2013). This situation should have a negative effect on COE. However, investors demand a higher cost of capital from companies that have better ESG disclosure. Perhaps investors or investment funds investing in companies listed in sustainability indices are only looking for returns on their investments, and a higher volume of ESG actions may be perceived as counterproductive to short-term profitability.

According to our results, lenders and investors have different views on ESG disclosure. While investors have a negative assessment of ESG disclosure, lenders perceive it as a tool that decreases information asymmetries and allows for better risk measurement. This raises the question of what happens when trust in the information disclosed is affected. The presence of real earnings management modifies the degree of confidence that ESG

information generates. From a legitimacy theoretical construct, ESG is seen by investors and lenders as a tool the company uses to counteract the negative effects of real eranings management.

Both lenders and investors seem to perceive the existence of REM as an indicator of bad practices that affect the impact of ESG information on financing costs, reducing its relevance (Houqe et al., 2017; Kim and Sohn, 2013). Moreover, the positive relationship between real earnings management and ESG indicates that ESG is used to counteract the effects of earnings management and improve the company's image. Thus, when the moderating effect of real earnings management is introduced, it is observed that in the case of the COD, the existence of real earnings management decreases the effect of ESG disclosure on the COD, although the effect is still negative. There is some distrust, but ESG disclosure still has a negative effect on the COD. In the case of the COE, the existence of real earnings management reinforces the effect of ESG disclosure on the COE, increasing the cost of capital. Investors, perhaps with a short-term view, demand that the higher the investment in ESG practices, the higher the returns. In the case of investors, short-term objectives take precedence over long-term objectives more related to ESG disclosure. If the possible mistrust that real earnings management practices may arouse is added, the positive relationship between ESG and COE is reinforced.

Therefore, the results reveal that lenders and investors have opposing views on ESG disclosure. While investors value ESG disclosure negatively, lenders perceive it as a tool that decreases information asymmetries and makes it possible to measure risks better. This may be modified by European-level regulations on sustainable finance, which require investors and investment funds to invest following sustainability criteria.

In conclusion, companies that have high ESG disclosure appear to take into account the interests of stakeholders and are more aware of the impact of their actions and, therefore, of the negative repercussions of real earnings management. Acting outside of society's requirements can lead to serious damage to companies, such as losing their image and reputation and jeopardising their long-term survival. From a theoretical point of view, the contributions of the research are relevant to the extent that the financial dimension of

ESG has been poorly addressed, both in relation to consistency with financial practices and policies to favour stakeholders. The results show that under stakeholder-agency theory and with strong ESG disclosure, companies are more aware of – and have less incentive to commit – real earnings management, although they should make efforts to improve financial policies with the stakeholders in relation to the supply chain. This research contributes to stakeholder-agency theory by showing how, through ESG, the interests of firms and stakeholders converge – although in some respects, the divergence between firms financial objectives and stakeholders is maintained, meaning that the demands of all stakeholders are not considered.

Besides, this research contributes to the literature by first linking ESG commitments to fiscal practices. Financial and non-financial indicators are not normally considered together. However, they can be a very useful tool for analysing the consistency of the various measures adopted by a company. Another contribution of the research is the distinction between temporary and permanent tax differences, which makes it possible to distinguish the different decisions that justify them.

A practical contribution is that governments can encourage social and environmental investment through tax benefits. A theoretical contribution is that stakeholder theory serves to explain the relationship between taxation and ESG disclosure. Our results reveal that, with respect to permanent tax differences affecting the current period, companies tend to prefer to contribute directly to society (Arco-Castro et al., 2020) within the margins allowed by legislation. However, with respect to temporary tax differences, a priori ESG disclosures seem to help reduce accrual earnings management and, consequently, temporary tax differences (Hoi et al., 2013; Kim and Im, 2017; Lanis and Richardson, 2015; Lin et al., 2017).

Likewise, another contribution of this work is to provide an indicator that measures the relationship of ESG disclosure with financial indicators, in this case, the cost of financing. Our research contributes to the debate on whether ESG disclosure increases, decreases, or is neutral in terms of firm value by demonstrating that, under the umbrella of legitimacy theory, ESG disclosure leads to a reduction in the COD but not in COE because

investors seem to have other objectives, namely, to receive a higher remuneration (higher COE) for their funds. A contribution of the research, in the legitimacy theory framework, is that the positive correlation between ESG and REM shows managers may seek to improve their image and reputation through ESG disclosure to counteract or cover up their manipulative practices and influence the perception of lenders and investors to obtain lower financing costs and a better image.

7.2 Implications, limitations and future lines of research

This research has several managerial implications for achieving the objective of sustainable development. We can point out, firstly, that the reduction of real earnings management will reduce the risks of unreliable information that improves the sustainability expectations. Secondly, the proposal to include some policies with customers and suppliers in the economic commitments can have an impact on improving relations, which strengthens the links with them and thus favours long-term sustainability. Thirdly, real earnings management is related to short-term objectives, which can affect competitiveness and long-term value. Controlling and reducing them improves the long-term sustainability of companies. An additional institutional effort can improve the economic dimension of ESG disclosure requirements and help put the sights on the long term, reinforcing the relationship with supply chain, customers and suppliers.

The research also has policy implications, suggesting that policymakers could be able to create effective regulations that can elaborate companies' tax presentation by making it part of the ESG agenda, which will lead companies to have greater concern regarding their behaviours towards tax practices.

In addition, the research encourages corporate executives to commit more deeply to ESG disclosure. Not only does conducting such activities contribute to society at large, but it also benefits the company by reducing the COD. On the other hand, managers who disclose a large amount of ESG information should be mindful of the company's dependence on investors, as investors do not value ESG information and, therefore, demand a higher rate of return. Managers must take into account the different interests of

lenders and investors and apply ESG information disclosure practices that cover the needs of both, especially strengthening the relationship with investors since they regard ESG information negatively. This may change over time as there is institutional interest in promoting sustainable finance and the investment of long-term investors.

This research also highlights that integrating sustainability and financial information could improve management and business performance in practice (Boiral, 2013). The consistency of actions in the various areas of the company will be made possible by the existence of financial and sustainability indicators. Managers who employ real earnings management use the disclosure of ESG information opportunistically to cover their misconduct. However, linking manipulation indicators such as real earnings management and ESG disclosure can eliminate inconsistencies between both types of practices, as both affect the ethical commitments that the company must assume to meet the demands of stakeholders.

There are some limitations to our research. Firstly, our sample is limited to 177 companies in Europe. Future studies can use larger samples and consider companies in other countries with cultural differences and different accounting requirements. Our sample is formed from the largest European companies because these types of companies are usually considered benchmarks and are followed by others. We can generalise the results, but it would be good to study more companies as well. In addition, future studies can also use other variables or firm characteristics that may affect real earnings management, such as corporate governance. Additionally, we could use the same model based on quarterly reporting to see if the companies change their accounting criteria if the results are not as expected. Moreover, the study does not account for how elements of corporate governance or the role of auditing—both internal and external—may influence a company's tax strategies.

Our sample also only considers European countries and could be extended to non-European countries and companies not listed in sustainability indices. Likewise, our measurements of COE, COD, and real earnings management allow for other possibilities. We have considered earnings management as a moderator variable, but other factors could

affect this relationship. Therefore, future studies can apply other models, although the authors' measurements have been widely used in the literature.

We propose replicate the study in different countries, such as emerging and less developed countries, where interest rates and perceptions of ESG efforts may differ, resulting in various implications. It would be very interesting to do a study based on the work of EFRAG to see the true differences between voluntary and compulsory practices. We also propose future research to investigate various moderating and mediating factors that may influence the relationship between ESG, COE, and COD.

7.3 Conclusiones

La incorporación de los ASG en las estrategias centrales de las empresas implica una visión a largo plazo y un compromiso con los stakeholders. Las prácticas de *real earnings management* está relacionada con las presiones para lograr ganancias actuales y cumplir objetivos a corto plazo, pero esto es contrario a la supervivencia futura (Cohen y Zarowin, 2010) y al valor a largo plazo. En este sentido, los objetivos que persigue la *real earnings management* son contrarios a los objetivos de las estrategias ASG y su divulgación, que apuntan a la sostenibilidad a largo plazo. Además, debe haber coherencia entre las prácticas ASG y las políticas financieras en dos sentidos: disminuir las prácticas de *earnings management* y desarrollar prácticas económicas que favorezcan a los stakeholders.

Esta investigación también tiene como objetivo evaluar la relación entre las prácticas tributarias y la divulgación de ASG en el sentido de si estas prácticas se utilizan para beneficiar a las partes interesadas o para engañarlas, y si la situación financiera tiene un efecto moderador en la relación entre la divulgación de ASG y las prácticas de elusión fiscal. Los resultados muestran que la divulgación de datos ASG a veces se utiliza de manera oportunista en relación con las prácticas de *earnings management* para ocultar prácticas de elusión fiscal o para actuar sobre los flujos operativos de efectivo.

Además, como la literatura anterior ha demostrado, la transparencia financiera afecta el coste de financiación. Esta investigación intenta identificar cómo la divulgación de la sostenibilidad afecta el coste de la deuda (COD) y el coste del capital (COE). Aunque *a*

priori se podría pensar que los financiadores evalúan a las empresas teniendo en cuenta los mismos parámetros y, por tanto, tendrían las mismas políticas y requisitos en materia de divulgación y transparencia ASG, los resultados de la regresión indican que la valoración de la divulgación ASG y su efecto en el el coste de financiación es diferente para prestamistas e inversores. Esto tiene implicaciones prácticas para las empresas cuando buscan financiación.

Las empresas analizadas mostraron una fuerte divulgación de ASG a pesar de los altos valores de *real earnings management*. Las empresas eran conscientes de que la *real earnings management* puede tener una serie de efectos adversos en su sostenibilidad, así como en la creación de valor a largo plazo y la imagen de la empresa (Gras-Gil et al., 2016). Una contribución de esta investigación es que aún no se ha logrado coherencia entre las prácticas ASG y financieras, pero se están logrando algunos resultados. Quizás los resultados más positivos estén relacionados con el flujo operativo de efectivo (AOCF) y los gastos alterados. Los resultados muestran que los criterios ASG a veces se utilizan para legitimar el desempeño, mejorar la imagen y engañar a las partes interesadas. Se aprecia que los objetivos financieros tienen prioridad sobre los objetivos sociales y medioambientales. En las prácticas aplicables a clientes y proveedores y que afectan al capital de trabajo, los resultados muestran que no existen acciones consistentes que intenten favorecerlos o mejorar el compromiso de estos grupos de interés.

Nuestra investigación respalda los resultados obtenidos en estudios previos que han analizado ambas variables y observado que cuanto mayor es la divulgación de ASG, menor es la práctica de *real earnings management* relacionadas con AOCF (Alsaadi et al., 2017; Christensen, 2016; García-Sánchez y García- Meca, 2017; Martínez-Ferrero et al., 2016). Sin embargo, el valor agregado de esta investigación proviene del hecho de que hemos considerado varias magnitudes que componen el flujo operativo de caja, lo que permite un análisis más profundo de las prácticas de *real earnings management*. Los resultados muestran que existe un amplio margen de mejora. Las entidades siguen los estándares que han sido establecidos institucionalmente e incluidos en guías o pronunciamientos aceptados. Este ha sido un gran paso adelante, pero la dimensión económica de ASG no tiene en cuenta medidas para todas las partes interesadas ni las políticas financieras de las

empresas. En este sentido, las medidas en relación con clientes y proveedores van encaminadas a reducir el capital circulante y mejorar la situación financiera, no a favorecer los intereses de estos grupos de interés. El control de la *real earnings management* es más deficiente en relación con el mercado de capitales, lo que demuestra que es más importante en las relaciones una visión más cortoplacista para dar una imagen de solvencia.

Si bien la práctica de *earnings management* a menudo se ha estudiado en relación con la gestión del devengo, esta investigación hemos considerado los componentes de esas prácticas de *real earnings management*, referidas a actuaciones sobre el capital circulante. Este es una contribución de nuestra investigación porque la manipulación de beneficios se puede hacer a través del gasto y, además, actuando sobre las condiciones de cobros y pagos. Así, se han propuesto modelos adicionales para analizar la relación entre la divulgación de ASG y el efecto de acelerar los cobros a los clientes y retrasar los pagos a los proveedores. Un hallazgo de la investigación es que algunas de estas prácticas podrían usarse para beneficiar a grupos de interés específicos desde una perspectiva ASG, pero los resultados muestran que esto solo es factible cuando las empresas tienen una alta rentabilidad. Solo en ese caso retrasan el cobro a los clientes. Este compromiso social no se ha trasladado a todos los grupos de interés. La investigación muestra que las empresas no intentan favorecer a los proveedores.

Además, a pesar de una fuerte relación entre las prácticas de *real earnings management* en situaciones de incertidumbre financiera y la preocupación por la supervivencia a corto plazo, nuestro estudio ha demostrado cómo esta situación podría contrarrestarse mediante la adopción de políticas y estrategias ASG que tengan en cuenta a todas las partes interesadas. Esto refuerza la relación con clientes y proveedores. Los resultados mostraron que el papel que juega la divulgación ASG en la fiabilidad de la información contable está comenzando a cambiar. Si no consideramos el efecto moderador de los indicadores financieros sobre la divulgación de ASG, los indicadores financieros analizados influyen en las prácticas de *real earnings management*.

Por otro lado, dado que los impuestos son parte de los ingresos estatales, evitar el pago de impuestos afectaría negativamente la percepción que la sociedad tiene de las empresas

(Park, 2017). Según los resultados, se identificarían las diferencias permanentes con la consideración de la empresa como un buen ciudadano porque la empresa estaría contribuyendo directamente a la sociedad a través de prácticas filantrópicas, sociales y ambientales, pudiendo realizar acciones acordes con sus compromisos éticos. Sin embargo, las empresas que intentaran eludir impuestos, utilizando diferencias temporales, serían vistas como malos ciudadanos, y pondría de relieve la falta de coherencia entre sus compromisos sociales y ambientales y sus obligaciones tributarias (Gulzar et al., 2018; Lanis y Richardson, 2012; Park, 2017). Quizás esta sea la razón por la que las empresas utilizan otras formas de *earnings management*.

Es necesario diferenciar dos tipos diferentes de prácticas tributarias que dan lugar a diferencias temporales y permanentes. Las empresas pueden aprovechar las oportunidades que brindan las regulaciones tributarias para aplicar recursos para abordar cuestiones o problemas sociales participando en iniciativas filantrópicas y haciendo contribuciones directas a la sociedad. Estas actividades dan lugar a diferencias permanentes. Las diferencias temporarias surgen de la aplicación del principio de devengo a las transacciones, intentando pagar menos impuestos. Los analistas e inversores interesados en las prácticas de elusión fiscal deben ser conscientes de que incluso cuando una empresa tiene una alta rentabilidad y paga menos impuestos, esto podría ser el resultado de prácticas de manipulación contable.

Con respecto a las variables financieras, los hallazgos no muestran un impacto significativo de la rentabilidad en la relación entre la divulgación de ASG y las diferencias fiscales permanentes. Sin embargo, en consonancia con la teoría de la legitimidad, las empresas altamente rentables intentan eludir impuestos y pueden participar en actividades de divulgación de datos ASG para engañar o manipular a los usuarios (Chen et al., 2010; Dunbar et al., 2010). En cuanto al apalancamiento, no afecta la relación entre la divulgación ASG con diferencias permanentes o temporales. Quizás las empresas no consideren el efecto del apalancamiento en sus prácticas tributarias.

En lo que respecta al coste de financiación, los prestamistas valoran positivamente la divulgación de criterios ASG, reduciendo el conste del endeudamiento (COD) (Bhuiyan y

Nguyen, 2019; Hamrouni et al., 2019; Yeh et al., 2020; Zheng, 2021). La información ASG permite una mayor evaluación de los riesgos –sociales, ambientales y de gobernanza– que afectan a las empresas (Erragragui, 2018). Su divulgación resulta en una mejora en la calificación crediticia de una empresa, lo que se relaciona con una reducción de su COD (Hamrouni et al., 2019; La Rosa et al., 2018; Yeh et al., 2020; Zheng, 2021; Zhou et otros, 2018). Por otro lado, los inversores valoran negativamente la divulgación de datos ASG y responden aumentando el coste de capital (COE) (Lins et al., 2015; Magnanelli e Izzo, 2017; Menz, 2010). Una mejor divulgación de información ASG proporciona una mejor percepción de los riesgos que afectan o pueden afectar a las empresas y disminuye la asimetría de la información (Cho et al., 2013). Esta situación debería tener un efecto negativo en el COE. Sin embargo, los inversores exigen un mayor coste de capital a las empresas que tienen una mejor divulgación de datos ASG. Quizás los inversores o fondos de inversión que invierten en empresas que cotizan en índices de sostenibilidad solo buscan rentabilidad sobre sus inversiones, y un mayor volumen de acciones ASG puede percibirse como contraproducente para la rentabilidad a corto plazo.

Según nuestros resultados, los prestamistas y los inversores tienen puntos de vista diferentes sobre la divulgación de datos ASG. Si bien los inversores tienen una valoración negativa de la divulgación de datos ASG, los prestamistas la perciben como una herramienta que reduce las asimetrías de información y permite una mejor medición del riesgo. Esto plantea la cuestión de qué sucede cuando se ve afectada la confianza en la información divulgada. La presencia de unas prácticas de *real earnings management* modifica el grado de confianza que genera la información ASG. Desde una construcción teórica de legitimidad, los inversores y prestamistas ven los ASG como una herramienta que la empresa utiliza para contrarrestar los efectos negativos de la *real earnings management*.

Tanto prestamistas como inversores parecen percibir la existencia de *real earnings management* como un indicador de malas prácticas que afectan el impacto de la información ASG en los costes de financiación, reduciendo su relevancia (Houqe et al., 2017; Kim y Sohn, 2013). Además, la relación positiva entre la *real earnings management* y ASG indica que los ASG se utilizan para contrarrestar los efectos de la *real earnings*

management y mejorar la imagen de la empresa. Así, cuando se introduce el efecto moderador de la *real earnings management*, se observa que en el caso del COD, la existencia de una *real earnings management* disminuye el efecto de la divulgación ASG sobre el COD, aunque el efecto sigue siendo negativo. Hay cierta desconfianza, pero la divulgación de datos ASG todavía tiene un efecto negativo en el COD. En el caso del COE, la existencia de una *real earnings management* refuerza el efecto de la divulgación de datos ASG en el COE, aumentando el coste de capital. Los inversores, tal vez con una visión de corto plazo, exigen que cuanto mayor sea la inversión en prácticas ASG, mayores serán los retornos. En el caso de los inversores, los objetivos de corto plazo tienen prioridad sobre los objetivos de largo plazo más relacionados con la divulgación de ASG. Si se suma la posible desconfianza que puedan despertar las prácticas reales de gestión de resultados, se refuerza la relación positiva entre ASG y COE.

Por lo tanto, los resultados revelan que prestamistas e inversores tienen puntos de vista opuestos sobre la divulgación de criterios ASG. Si bien los inversores valoran negativamente la divulgación de datos ASG, los prestamistas la perciben como una herramienta que reduce las asimetrías de información y permite medir mejor los riesgos. Esto puede verse modificado por la normativa a nivel europeo sobre finanzas sostenibles, que exige a los inversores y fondos de inversión invertir siguiendo criterios de sostenibilidad.

En conclusión, las empresas que tienen una alta divulgación de ASG parecen tener en cuenta los intereses de los grupos de interés y son más conscientes del impacto de sus acciones y, por tanto, de las repercusiones negativas de la *real earnings management*. Actuar al margen de las exigencias de la sociedad puede provocar graves daños a las empresas, como perder su imagen y reputación y poner en peligro su supervivencia a largo plazo. Desde un punto de vista teórico, las contribuciones de la investigación son relevantes en la medida en que la dimensión financiera de los ASG ha sido mal abordada, tanto en relación con la coherencia con las prácticas financieras como con las políticas para favorecer a los stakeholders. Los resultados muestran que bajo la teoría de los stakeholders y la agencia con una fuerte divulgación de ASG, las empresas son más conscientes (y tienen menos incentivos para comprometerse) con la *real earnings management*, aunque deberían

hacer esfuerzos para mejorar las políticas financieras con los grupos de interés en relación con la cadena de suministro. Esta investigación contribuye a la teoría de los stakeholders al mostrar cómo, a través de ASG, los intereses de las empresas y las partes interesadas convergen, aunque en algunos aspectos, la divergencia entre los objetivos financieros de las empresas y las partes interesadas se mantiene, lo que significa que no se consideran las demandas de todos los grupos de interés.

Además, esta investigación contribuye a la literatura al vincular primero los compromisos ASG con las prácticas fiscales. Los indicadores financieros y no financieros normalmente no se consideran juntamente. Sin embargo, pueden ser una herramienta muy útil para analizar la coherencia de las distintas medidas adoptadas por una empresa. Otra contribución de la investigación es la distinción entre diferencias tributarias temporales y permanentes, lo que permite distinguir las diferentes decisiones que las justifican.

Una contribución práctica es que los gobiernos pueden fomentar la inversión social y ambiental a través de beneficios fiscales. Una contribución teórica es que la teoría de los stakeholders sirve para explicar la relación entre la tributación y la divulgación de datos ASG. Nuestros resultados revelan que, respecto a las diferencias tributarias permanentes que afectan al período actual, las empresas tienden a preferir contribuir directamente a la sociedad (Arco-Castro et al., 2020) dentro de los márgenes permitidos por la legislación. Sin embargo, con respecto a las diferencias fiscales temporales, las revelaciones ASG a priori parecen ayudar a reducir las prácticas de *real earnings management* y, en consecuencia, las diferencias fiscales temporales (Hoi et al., 2013; Kim e Im, 2017; Lanis y Richardson, 2015; Lin et al., 2017).

Asimismo, otro hallazgo de este trabajo es brindar un indicador que mida la relación de la divulgación ASG con los indicadores financieros, en este caso, el coste de financiación. Nuestra investigación contribuye al debate sobre si la divulgación de ASG aumenta, disminuye o es neutral en términos del valor de la empresa al demostrar que, bajo el paraguas de la teoría de la legitimidad, la divulgación de ASG conduce a una reducción del COD, pero no del COE porque los inversores parecen tienen otros objetivos, a saber, recibir una remuneración más alta (un COE más alto) por sus fondos. Una contribución de la

investigación, en el marco de la teoría de la legitimidad, es que la correlación positiva entre ASG y la *real earnings management* muestra que los gerentes pueden buscar mejorar su imagen y reputación a través de la divulgación de ASG para contrarrestar o encubrir sus prácticas manipuladoras e influir en la percepción de prestamistas e inversores para obtener menores costes de financiación y una mejor imagen.

7.4 Implicaciones, limitaciones y futuras líneas de investigación

Esta investigación tiene varias implicaciones para los gestores para lograr el objetivo del desarrollo sostenible. Podemos señalar, en primer lugar, que la reducción de las prácticas de *real earnings management* reducirá los riesgos de información poco fiable que mejore las expectativas de sostenibilidad. En segundo lugar, la propuesta de incluir algunas políticas con clientes y proveedores en los compromisos económicos puede tener un impacto en la mejora de las relaciones, lo que fortalecería los vínculos con ellos y favorecería así la sostenibilidad a largo plazo. En tercer lugar, la *real earnings management* está relacionada con objetivos de corto plazo, que pueden afectar la competitividad y el valor de largo plazo. Controlarlos y reducirlos mejora la sostenibilidad a largo plazo de las empresas. Un esfuerzo institucional adicional puede mejorar la dimensión económica de los requisitos de divulgación de ASG y ayudar a poner la mira en el largo plazo, reforzando la relación con la cadena de suministro, los clientes y los proveedores.

La investigación también tiene implicaciones políticas, ya que sugiere que los legisladores podrían crear regulaciones efectivas que contengan medidas que permitan a las empresas incluir dichas actuaciones en la agenda ASG, lo que llevará a las empresas a tener una mayor preocupación con respecto a sus comportamientos respecto de las prácticas fiscales.

Además, la investigación anima a los ejecutivos corporativos a comprometerse más profundamente con la divulgación de datos ASG. La realización de este tipo de actividades no sólo contribuye a la sociedad en general, sino que también beneficia a la empresa al reducir el coste de la financiación. Por otro lado, los gestores que divulgan una gran cantidad de información ASG deben tener en cuenta la dependencia de la empresa de los inversores, ya que los inversores no valoran la información ASG y, por tanto, exigen una mayor tasa de rendimiento. Los gestores deben tener en cuenta los diferentes intereses de

prestamistas e inversores y aplicar prácticas de divulgación de información ASG que cubran las necesidades de ambos, especialmente fortaleciendo la relación con los inversores, ya que estos consideran negativamente la información ASG. Esto puede cambiar con el tiempo a medida que exista interés institucional en promover las finanzas sostenibles y la inversión de inversores a largo plazo.

Esta investigación también destaca que la integración de la sostenibilidad y la información financiera podría mejorar la gestión y el desempeño empresarial en la práctica (Boiral, 2013). La coherencia de las acciones en las distintas áreas de la empresa será posible gracias a la existencia de indicadores financieros y de sostenibilidad. Los gestores que emplean *real earnings management* utilizan la divulgación de información ASG de manera oportunista para encubrir su mala conducta. Sin embargo, vincular indicadores de manipulación como las prácticas de *real earnings management* y la divulgación de ASG puede eliminar inconsistencias entre ambos tipos de prácticas, ya que ambas afectan los compromisos éticos que la empresa debe asumir para satisfacer las demandas de los stakeholders.

Existen algunas limitaciones en nuestra investigación. En primer lugar, nuestra muestra se limita a 177 empresas en Europa. Los estudios que se realicen en un futuro pueden utilizar muestras más grandes y considerar empresas de otros países con diferencias culturales y diferentes requisitos contables. Nuestra muestra está formada por las mayores empresas europeas porque este tipo de empresas suelen considerarse referentes y son seguidas por otras. Podemos generalizar los resultados, pero sería bueno estudiar un mayor número de empresas. Además, los estudios futuros también pueden utilizar otras variables o características de las empresas que puedan afectar la gestión de las ganancias reales, como el gobierno corporativo. Además, podríamos utilizar el mismo modelo basado en informes trimestrales para ver si las empresas cambian sus criterios contables si los resultados no son los esperados. El estudio no tiene en cuenta cómo los elementos del gobierno corporativo o el papel de la auditoría (tanto interna como externa) pueden influir en las estrategias fiscales de una empresa.

Nuestra muestra también considera solo países europeos y podría extenderse a países no europeos y empresas que no figuran en índices de sostenibilidad. Asimismo, nuestras mediciones de COE, COD y *real earnings management* permiten otras posibilidades. Hemos considerado la *real earnings management* como una variable moderadora, pero otros factores podrían afectar esta relación. Por lo tanto, estudios futuros pueden plantear otros instrumentos de medida, aunque las escalas que se han utilizado han sido ampliamente utilizadas en la literatura.

Proponemos replicar el estudio en diferentes países, como países emergentes y menos desarrollados, donde las tasas de interés y las percepciones de los esfuerzos ASG pueden diferir, lo que tendría otras implicaciones. Sería muy interesante hacer un estudio basado en el trabajo del EFRAG para ver las verdaderas diferencias entre prácticas voluntarias y obligatorias. También proponemos otras líneas de investigación para analizar varios factores moderadores y mediadores que pueden influir en la relación entre ASG, COE y COD.

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