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Moderated Mediation in Earnings Management and Firm Value: Examining the Roles of CSR Disclosure and Accounting Conservatism

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ABSTRACT

This study examines the relationship between earnings management and firm value, emphasizing the mediating role of corporate social responsibility (CSR) disclosure and the moderating effect of accounting conservatism. Using a sample of 731 non-financial companies listed on the Indonesia Stock Exchange from 2016 to 2023, with 5,848 firm-year observations, the research employs panel regression and conditional process modelling to test moderated mediation effects. The findings reveal that earnings management negatively impacts firm value, as profit manipulation erodes investor confidence and diminishes the reliability of financial statements. CSR disclosure fully mediates this relationship by mitigating the adverse effects of earnings management, signalling the firm's commitment to social responsibility, and enhancing stakeholder trust. Furthermore, accounting conservatism moderates these relationships by weakening the negative association between earnings management and firm value while strengthening the positive effect of CSR disclosure on firm value. These results highlight the strategic importance of combining CSR disclosure and conservative accounting practices as governance mechanisms to bolster investor confidence and stabilize firm value.

Keyword: firm value; earnings management; CSRD and accounting conservatism

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ОРИГИНАЛЬНАЯ СТАТЬЯ

Модерируемое посредничество в управлении прибылью и стоимостью компании: изучение роли раскрытия информации о КСО и бухгалтерского консерватизма

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АННОТАЦИЯ

В данном исследовании рассматривается взаимосвязь между управлением доходами и стоимостью компании, подчеркивается опосредующая роль раскрытия информации о корпоративной социальной ответственности (КСО) и модерирующий эффект консерватизма бухгалтерского учета. Анализируя выборку из 731 нефинансовой компании, зарегистрированной на Индонезийской фондовой бирже в период 2016–2023 гг., с 5848 наблюдениями за год, авторы используют панельную регрессию и моделирование условных процессов для проверки эффектов умеренного опосредования. Результаты показывают, что управление прибылью негативно влияет на стоимость компании, поскольку манипулирование прибылью подрывает доверие инвесторов и снижает надежность финансовой отчетности. Раскрытие информации о КСО полностью опосредует эту взаимосвязь, смягчая негативные последствия управления прибылью, сигнализируя о приверженности компании социальной ответственности и повышая доверие заинтересованных сторон. Более того, бухгалтерский консерватизм выступает модератором этих отношений, ослабляя негативную связь между управлением прибылью и стоимостью компании и усиливая положительный эффект раскрытия информации о КСО на стоимость компании.

Ключевые слова: стоимость компании; управление прибылью; CSRD и бухгалтерский консерватизм

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INTRODUCTION

Investors and managers often have divergent interests in decision-making, which can lead to conflicts of interest. While investors aim to enhance the value of their investments and achieve maximum profits, managers frequently prioritize personal welfare through the policies and authorities they control. This divergence can motivate managers to exercise discretion in financial reporting, sometimes employing methods that do not accurately reflect the firm financial condition [1]. This practice, known as earnings management, involves manipulating financial information for specific purposes, either legally or illegally [2, 3]. Mnif and Slimi [4] define earnings management as the deliberate alteration of financial information to mislead investors or achieve contractual benefits tied to the reported accounting figures.

From the agency theory perspective, earnings management arises due to information asymmetry between principals and agents. Under such conditions, managers may exploit their discretion opportunistically to maximize personal utility [5]. These opportunistic behaviours often adversely affect the quality of financial statements, rendering them less transparent and unreliable. Consequently, this can undermine the firm credibility and reduce its long-term value [1]. Furthermore, earnings management practices may induce stock price volatility, elevate long-term risks, and erode investor and creditor confidence [6, 7].

Conversely, Corporate Social Responsibility Disclosures (CSRD) can serve as an effective mechanism to mitigate the adverse effects of earnings management. By providing a positive signal to investors, CSRD can help counterbalance the perceived risks associated with earnings management practices [8]. Thus, CSRD function not only as a corporate attribute but also as a mediator that can alleviate the adverse impacts of earnings management on firm value. However, the effectiveness of CSRD in enhancing firm value depends on the quality of the firm financial reporting.

Accounting conservatism represents a critical governance mechanism that curtails the extent of earnings management. Accounting conservatism promotes greater transparency in financial statements by ensuring the early recognition of losses and deferring the recognition of income until it is fully realized. This approach strengthens the link between earnings management and CSRD while enhancing CSRD role in improving firm value [9, 10]. A combination of robust CSRD and conservative accounting practices can bolster investor confidence in the company's sustainability. CSRD become more effective in enhancing firm value when underpinned by conservative accounting practices, as more prudent financial statements reinforce the perception that CSRD represents a genuine commitment rather than a mere image-building strategy [11, 12].

This study aims to investigate the effect of earnings management on firm value, incorporating CSRD as a mediating variable and accounting conservatism as a moderating variable. Using a conditional mediation model, this study provides new insights into the mechanisms underlying the relationship between earnings management, CSRD, and firm value. The sample comprises 731 non-financial companies in Indonesia from 2016 to 2023, yielding a total of 5.848 observations. The findings reveal that earnings management negatively impacts firm value. Moreover, CSRD fully mediates the relationship between earnings management and firm value, emphasizing CSR's role in mitigating the effects of earnings management. Accounting conservatism weakens the relationship between earnings management and CSRD but strengthens the relationship between CSRD and firm value.

This research makes several contributions to the literature. First, it adopts a novel approach by positioning earnings management as an independent variable, highlighting its direct influence on firm value. Second, the study introduces methodological novelty by applying a moderated mediation model, offering more profound insights into CSRD role as a mitigating mechanism. Third, it extends the literature on firm value by exploring the interplay between earnings management, CSRD, and accounting conservatism, particularly in emerging markets such as Indonesia.

LITERATURE REVIEW

Earnings Management and Firm Value

Managers' decisions are often deemed opportunistic when they exploit accounting policies to prioritize their interests at the expense of shareholders [2, 4, 13]. Managers may manipulate profits to their advantage through various accounting methods, rules, and guidelines, such as reducing depreciation, altering allowances, adjusting stock values, engaging in tax manipulation, and other tactics while disregarding shareholder interests [6, 14]. As a result, the financial information reported fails to present an accurate and fair representation of the firm value, leading to errors in decision-making [15, 16].

Earnings management can damage a firm image, undermining investor confidence in the reliability of financial statements and creating a perception that the quality of reported earnings is poor [17]. According to agency theory, earnings management arises from information asymmetry and weak corporate governance systems, which create opportunities for management to engage in opportunistic behaviour. Consequently, earnings management has a detrimental impact on firm value. A notable example of this phenomenon is the case of PT Garuda Indonesia in 2019, where the revelation of earnings management practices resulted in a 40% decline in the firm stock price.

The discretionary accrual accounting approach has been shown to negatively affect a firm operational performance and overall value due to the misleading nature of the information it produces [18]. Several studies have also identified a negative relationship between earnings management, financial performance, and firm value [19]. For instance, a study by Ibrani et al. [20] earnings management in non-financial firms in Malaysia found a negative correlation between earnings management and firm value following acquisition dates [21].

H1: Managers opportunistic behaviour in the form of earnings management will reduce the firm value.

The Moderation Role of Accounting Conservatism

Accounting conservatism, rooted in agency theory, helps reduce information asymmetry between management and stakeholders while minimizing agency costs. As a set of regulatory practices, accounting conservatism also plays a pivotal role in corporate governance by enhancing the transparency and accountability of financial statements. By adhering to conservative principles, companies can increase investor confidence in the reliability of their financial statements, ensuring they are free from manipulative practices. A study by Francis et al [22] demonstrated that accounting conservatism effectively reduces information asymmetry and mitigates adverse market reactions to events that harm the company.

Accounting conservatism has been shown to lower capital costs [23], reduce the risk of stock price crashes [24], and provide shareholders with high-quality, decision-useful information [25]. Additionally, it fosters improved CSRD by enhancing the quality of company information and reducing information asymmetry. Accounting conservatism encourages managers to align their activities with CSR initiatives, ensuring they address the interests of all corporate stakeholders. This alignment underscores the benefits of managerial commitment to conservative reporting practices [25]. In this context, conservatism enhances the transparency of CSR implementation, demonstrating respect for stakeholder interests [23, 26]. Companies adopting conservative practices are better positioned to fulfil their CSRD obligations effectively, meeting stakeholder expectations.

As a moderating variable, accounting conservatism is anticipated to weaken the negative impact of earnings management on CSRD. Companies that embrace accounting conservatism tend to produce more credible CSRD that are less susceptible to the effects of profit manipulation. Furthermore, accounting conservatism can amplify the positive impact of CSRD by delivering additional signals to investors about sound governance practices. According to signal theory, integrating transparent CSRD with conservative accounting practices strengthens the company's commitment to sustainability and financial accountability. Empirical evidence supports this perspective, with several studies reporting that accounting conservatism enhances investor confidence in CSR disclosures, strengthening their influence on firm value [9, 27].

H2: Accounting conservatism weakens the negative impact of earnings management on CSRD.

H3: Accounting conservatism reinforces the positive effects of CSRD on firm value.

The Role of CSRD Mediation

Earnings management is often perceived as opportunistic behaviour that negatively impacts a company's reputation due to the lack of credibility in reported financial statements. Investors view earnings management as undermining transparency and accountability, influencing their

Table 1

Research Sample

Sectoral Indices	∑ Company	∑ Observation
Energy	89	712
Basic Materials	110	880
Industrial	67	536
Consumer Non-Cyclical	129	1032
Consumer Cyclical	165	1320
Healthcare	34	272
Property and Real Estate	92	736
Technology	47	376
Infrastructure	69	552
Logistic and Transportation	37	296
Sample	839	6712
Firms with missing data	108	864
Final Sample	731	5848

Source: Compiled by the authors.

perception of the firm value [11]. When conducted effectively, CSRD can serve as a mitigation mechanism to improve stakeholders ‘ negative perceptions. From signal theory, CSRD provides a positive signal to investors, demonstrating the company's commitment to sustainability and social responsibility [28]. Moreover, CSRD serves as a tool to enhance environmental accountability and secure legitimacy from stakeholders by showcasing the company's responsibility for the impacts arising from its business activities [29].

CSRD also reflects company's ethical values and strategic intent to maintain legitimacy, thereby mitigating the adverse effects of earnings management on firm value [30]. Empirical evidence supports the idea that CSRD can enhance the corporate image, even in cases where the company has been engaged in earnings management [8, 12]. CSR is not merely an organizational attribute but also signifies the company's dedication to sound governance practices, effectively addressing the detrimental consequences of opportunistic behaviour.

H4: CSRD reduces the negative impact of earnings management on firm value.

RESEARCH METHODS

The population of this study consists of 839 non-financial companies listed on the Indonesia Stock Exchange (IDX) during the period 2016–2023. As presented in *Table 1*, the final sample comprises 731 companies, resulting in 5.848 observations. A total of 108 companies were excluded from the sample due to incomplete data. Financial data was sourced from the Bloomberg database. At the same time, CSR disclosures were calculated based on information provided in the companies' sustainability reports and annual reports obtained from the official websites of each listed company. Financial and insurance companies were excluded from the sample because the measurement of variables for these sectors has significantly different characteristics.

The dependent variable in this study is measured using Tobin's Q as a proxy for firm value, as it reflects market expectations of future performance [31]. Tobin's Q is calculated by summing the equity market value (stock price multiplied by the number of outstanding shares) and the book value of debt, then dividing the total by the book value of total assets [32]. We employ the accrual earnings management proxy for the independent variable, earnings management. Discretionary accruals are calculated using the modified Jones model [33, 34]. Following prior research [4, 35], the total accrual level for a given company ($TAC_{i,t}$) is defined as the difference between net income before extraordinary items from the income statement ($NI_{i,t}$) and cash flows from operations obtained from the cash flow statement ($OCF_{i,t}$):

$$TAC_{i,t} = NI_{i,t} - OCF_{i,t}.$$

Second, in line with the modified Jones model, non-discretionary accruals ($NDAC_{i,t}$) for each observation in the sample are assessed based on total assets ($TA_{i,t}$), property, plant, and equipment ($PPE_{i,t}$), and changes in revenue ($\Delta REV_{i,t}$). The variables are divided by the total assets from the previous period to allow us to account for differences in the size of the firm:

$$\frac{TAC_{i,t}}{TA_{i,t-1}} = a_0 + a_1 + \frac{1}{TA_{i,t-1}} + \frac{\Delta REV_{i,t}}{TA_{i,t-1}} + \frac{PPE_{i,t}}{TA_{i,t-1}} + \tau_{i,t}.$$

Third, nondiscretionary accrual is calculated using, total assets ($TA_{i,t}$), changes in revenue ($\Delta REV_{i,t}$), changes in receivables ($\Delta REC_{i,t}$) and property, plants, and equipment ($PPE_{i,t}$).

$$NDAC_{i,t} = a_0 + a_1 + \frac{1}{TA_{i,t-1}} + \frac{\Delta REV_{i,t} - REC_{i,t}}{TA_{i,t-1}} + \frac{PPE_{i,t}}{TA_{i,t-1}} + \tau_{i,t}.$$

Finally, discretionary accrual ($NDAC_{i,t}$) is a proxy of earnings management ($AEM_{i,t}$) calculated as the difference between the overall accrual ($TAC_{i,t}$) and the non-discretionary accrual value obtained using the modified Jones model ($NDAC_{i,t}$) In line with previous research [3, 13, 19]. Since discretionary accrual can be used to exaggerate a firm's actual profit and underestimate unprofitable profits, we use the absolute value of discretionary accrual (*DA*) as a proxy for earnings management, the total accrual is calculated:

$$DA_{i,t} = TA_{i,t} - NDA_{i,t}.$$

The mediation variable, CSRD, is calculated based on the Global Reporting Initiative (GRI) standards [11, 36]. The checklist method is used to assess the extent of CSRD made by companies. For each social responsibility item disclosed, the company is assigned a score of 1, and a score of 0 is assigned for items not disclosed. The total CSRD score is calculated using the following equation:

$$\text{CSRD-Score} = \frac{\textit{Items Disclosed}}{\textit{Total Items in GRI checklist}}.$$

The moderation variable, accounting conservatism, is measured using the model developed by Basu (1997), which serves as the foundation for numerous studies assessing the level of accounting conservatism. This model is widely recognized and considered one of the most popular measures in the accounting literature. The degree of accounting conservatism is calculated using the following equation:

$$\frac{X_{i,t}}{P_{i,t-1}} = \beta_0 + \beta_1\left[D_{i,t}\right] + \beta_2\left[R_{i,t}\right] + \beta_3\left[R_{i,t} \times D_{i,t}\right] + \varepsilon_{i,t}.$$

The model variables are defined as follows:

- $X_{i,t}$: earnings per share of firm *i* for fiscal year *t*;
- $P_{i,t}$: the price per share *i* at the start of fiscal year *t*;
- $X_{i,t} / P_{i,t-1}$: earnings per share ratio;
- $R_{i,t}$: firm 's unforecast stock market performance per share over twelve months beginning nine months before the end of fiscal year *t*;
- $D_{i,t}$: a dichotomous variable equal to 1 if $R_{i,t} < 0$ and 0 otherwise;
- $E_{i,t}$: the error term.

The control variables were measured based on established methodologies in prior studies. Firm size (*FZ*) is measured as the natural logarithm of total assets. The current ratio (*CR*) is calculated by dividing current assets by current liabilities. Return on assets (*ROA*) is measured as net profit divided by total assets, while return on equity (*ROE*) is measured as net profit divided by total equity. Leverage (*Lev*) is calculated as total debt divided by total assets.

For data analysis, panel data regression and the PROCESS tool were employed, using equations 7 and 14 of the Hayes (2022) model regression to test the mediation and moderation models. The regression equation is expressed as follows:

Model 1: Direct effect

$$Tobin's\ Q = \beta_0 + \beta_1 EM + \beta_2 FZ + \beta_3 CR + \beta_4 ROA + \beta_5 ROE + \beta_6 LEV + \varepsilon.$$

Model 2: Moderation

$$CSRD = \beta_0 + \beta_1 EM + \beta_2 EM * CA + \beta_3 FZ + \beta_4 CR + \beta_5 ROA + \beta_6 ROE + \beta_7 LEV + \varepsilon.$$

$$Tobin's\, Q = \beta_0 + \beta_1 CSRD + \beta_2 CSRD * CA + \beta_3 FZ + \beta_4 CR + \beta_5 ROA + \beta_6 ROE + \beta_7 LEV + \varepsilon.$$

Model 3: Mediation (indirect effect)

$$Tobin's\, Q = \beta_0 + \beta_1 EM + \beta_2 CSRD + \beta_3 FZ + \beta_4 CR + \beta_5 ROA + \beta_6 ROE + \beta_7 LEV + \varepsilon.$$

RESULTS AND DISCUSSION

Descriptive Statistics and Correlation Analysis

Table 2 presents the descriptive statistics of the variables in the research model. The average firm value (FV) value is 0.142, with a standard deviation of 2.113. This indicates high variability among the sample companies, as the minimum value is 0.076 and the maximum value is 2.929. This heterogeneity suggests that the sample includes a mix of firms with differing valuations, with most companies exhibiting lower firm values, as the average is closer to the minimum.

The average earnings management (EM) score is –0.525, suggesting that most companies adopt conservative earnings management practices. However, the data has significant variability, with a minimum value of –3.564 and a maximum of 1.406. Accounting conservatism (AC) also demonstrates high variability, ranging from –1.435 to 4.000. This variability indicates substantial differences in the application of accounting conservatism across companies. The mean value of 1.303 reflects that companies, on average, have implemented accounting conservatism reasonably well.

The average CSRD score is 0.766, with a minimum of 0.450 and a maximum of 0.923. This finding suggests that most sample companies have adhered to reasonable standards for CSRD. The average firm size (FZ) for the control variables is 11.599, indicating significant variability in the scale of assets among the companies. The average current ratio (CR) is 49%, with a standard deviation 4.821. The return on assets (ROA) averages 11%, with a standard deviation of 0.355, while the return on equity (ROE) averages 32%, with a standard deviation of 0.780. Leverage (Lev) averages 44%, with a standard deviation of 0.764, and ranges from a minimum of 0.380 to a maximum of 0.536, indicating a generally conservative approach to debt usage in corporate operations.

Table 3 summarizes the correlation analysis for the independent variables in the research model. The correlation coefficients for all variables are below 0.7, indicating no symptoms of multicollinearity in the model (Alsayegh et al., 2020). Multicollinearity was further assessed using variance inflation factors (VIF), with a threshold of 10 as the standard limit for multicollinearity concerns (Myers, 1990). The results show that all VIF values are below 10, indicating weak VIF values and confirming the absence of multicollinearity among the independent variables in the research model.

The regression results indicate that earnings management (EM) has a significant negative impact on firm value (FV), consistent with prior literature suggesting that earnings management practices erode investor confidence and reduce the Firm's value. CSRD mediates this relationship, as the inclusion of CSRD in the model renders the relationship between EM and FV insignificant, indicating complete mediation. This

Table 2

Descriptive Statistics

Variable	Obv	Minimum	Maximum	Mean	Std. Deviation
FV	5848	0.076	2.929	0.142	2.113
IN	5848	–3.564	1.406	–0.525	8.682
AC	5848	–1.435	4.000	1.303	5.488
CSR	5848	0.450	0.923	0.766	0.208
FZ	5848	9.170	15.414	11.599	5.908
CR	5848	0.320	0.651	0.496	4.821
ROA	5848	0.420	0.300	0.117	0.355
ROE	5848	0.660	0.460	0.327	0.780
LEV	5848	0.380	0.536	0.344	0.765

Source: Compiled by the authors.

Table 3

Correlation Matrix and VIF

	FV	IN	AC	CSR	FZ	CR	ROA	ROE	LEV	VIF
FV	1									1.59
IN	0.308	1								3.98
AC	–0.108	0.334								3.54
CSR	0.503	0.402	–0.005							1.99
FZ	–0.065**	0.608	0.077**	–0.028*	1					1.41
CR	–0.004	0.440	–0.015	0.009	–0.002	1				1.94
ROA	0.659**	0.013	–0.203	0.005	–0.019	–0.001	1			1.92
ROE	–0.001	–0.002	0.057**	–0.003	0.031*	–0.007	0.008	1		2.57
LEV	0.101	–0.201	0.223	0.352	0.111	0.025	0.043	–0088**	1	5.21

Source: Compiled by the authors.
Note: * 0.1%, ** 0.05.

finding implies that CSRD effectively alters investors' negative perceptions of earnings management, mitigating its adverse effects on firm value.

Furthermore, accounting conservatism (AC) acts as a moderator that weakens the negative relationship between EM and FV. This suggests that companies adopting conservative accounting practices can alleviate the detrimental effects of earnings management on firm value. Conversely, AC strengthens the positive relationship between CSRD and FV, indicating that combining high CSRD and conservative accounting practices enhances investor confidence, ultimately boosting firm value. Among the control variables, return on assets (ROA) exhibits a significant positive effect on FV, underscoring the critical role of profitability in driving firm value. This highlights the importance of financial performance as a key determinant of investor perceptions and market valuation.

DISCUSSION

Earnings Management and Firm Value

Based on *Table 4*, Model 1, the results indicate that earnings management (EM) negatively

Table 4

Regression Results

Variable	Model 1		Model 2		Model 3	
	Beta	P-value	Beta	P-value	Beta	P-value
IN	−0.001	0.097*	−0.003	0.054*	−0.001	0.707
		(−0.200)		−0.184		−0.117
EM*AC			−0.009	0.061*		
				(0.516)		
CSRD*AC			0.002	0.045**		
				(−0.195)		
EM—>CSRD—>FV					0.851	0.050**
						(5.937)
CR	−0.003	0.752	0.009	0.047**	−0.003	0.052*
		(−0.316)		(0.721)		(−0.316)
ROA	0.758	0.000***	0.004	0.074*	0.758	0.000***
		(8.197)		(0.338)		(8.185)
ROE	0.001	0.094*	0.002	0.089*	0.001	0.095*
		(0.133)		(0.143)		(0.132)
LEV	0.001	0.027**	0.002	0.090*	0.001	0.027**
		(0.092)		(0.122)		(0.092)

Source: Compiled by the authors.

Note: * 0.1%, ** 0.05, *** 0.01.

impacts firm value (FV), with a significance value of 0.097 (−0.001). Earnings management practices significantly diminish firm value as profit manipulation by managers generates negative sentiment among stakeholders. This occurs because the published financial statements fail to accurately reflect the company's business conditions [21, 38]. Earnings management deteriorates the quality of financial statements, making it difficult for investors to evaluate the firm's performance effectively and often leading to misguided decision-making [39].

From the agency theory perspective, management leverages the flexibility of accounting standards to engage in opportunistic earnings management, often selecting specific accounting methods to enhance their wealth. Prior research has shown that earnings management enables firms to meet or exceed analysts' estimates, thereby increasing managerial compensation [19]. This practice can also influence stock prices and outcomes of initial public offerings (IPOs) [15, 40]. Mnif et al. [4] revealed that managers often use income smoothing to inflate profits during challenging periods and reduce them during favourable times to secure their positions.

Earnings management can lead to a decline in firm value when shareholders suspect profit manipulation [34]. This value erosion is linked to heightened information asymmetry, a tarnished corporate reputation, and reduced stakeholder support [39, 41]. Furthermore, earnings management exacerbates market inefficiencies and decreases firm value [7]. The observed negative relationship between earnings management and company valuation underscores the critical importance of transparency and accountability in financial statements for maintaining investor confidence and preserving firm value.

The Moderation Role of Accounting Conservatism

Based on *Table 4*, Model 2, accounting conservatism (AC) weakens the negative relationship between earnings management (EM) and firm value

(FV) (significance: 0.061; coefficient: –0.009). This indicates that conservatism acts as a control mechanism that limits the extent of profit manipulation. Accounting conservatism enhances financial reporting quality by increasing transparency and minimizing risks associated with information asymmetry. These findings align with Li et al. (2020), who reported that accounting conservatism boosts investor confidence by providing a more realistic depiction of a firm's performance. Wati et al. [42] observed that companies with higher conservatism are more valued by investors due to the perceived reliability of their financial statements. Similarly, Pathak et al. [8] demonstrated that accounting conservatism effectively mitigates the adverse effects of earnings management on firm value. Further studies by F. Shahzad et al. [43], Gavana and Gottardo [9] reinforce the argument that accounting conservatism enhances profit quality and reduces the negative consequences of financial misreporting on a firm's reputation.

Conversely, accounting conservatism strengthens the positive relationship between CSRD and firm value (FV) (significance: 0.045; coefficient: 0.002). This suggests that robust CSRD and conservative accounting practices send a powerful positive signal to the market. Such signals reflect the company's commitment to transparency, accountability, and sustainability, which enhances investor confidence. CSRD and accounting conservatism work synergistically to create a stable and trustworthy corporate image. These findings are consistent with those of Sofian et al. [11], who found that integrating CSR and accounting conservatism increases a 's appeal to stakeholders. Gavana and Gottardo [9] further reported that CSR disclosures supported by conservative accounting practices bolster firm value by strengthening relationships between the company and its stakeholders. Additional studies by Li et al. [10], Wati et al. [42] highlight that companies combining CSR with accounting conservatism are better equipped to manage market uncertainties. Furthermore, Anagnostopoulou et al. [23] concluded that this approach enhances market stability by signalling adherence to sound governance practices.

The Role of CSRD Mediation

The results indicate that CSRD mediates the relationship between earnings management (EM) and firm value (FV), underscoring the crucial role of CSR in enhancing investors' perceptions of a company. CSR serves as a signal to the market, demonstrating the company's commitment to sustainability and social responsibility, thereby mitigating the negative impact of earnings management. By fostering trust and improving the company's image among stakeholders, CSRD enables investors to focus more on the long-term benefits rather than the short-term risks associated with profit manipulation. Shira [44] asserts that effective CSR practices can reduce market risks linked to earnings management. Pathak et al. [8] highlight that robust CSR disclosures contribute to higher corporate value by fostering stronger relationships between companies and society. Similarly Alqatan and Hichri [28] emphasize that CSR can function as a mitigation tool, offsetting the adverse effects of profit manipulation on a company's reputation. Naqy and Valaskova [45] found that CSR creates a framework for companies to adhere to higher corporate governance standards, enhancing their appeal to investors. These findings align with Shahzad et al. [45], who observed that CSRD helps stabilize markets and reduce the volatility of firm values.

CONCLUSION

This study concludes that earnings management negatively impacts firm value, indicating that profit manipulation undermines investor confidence and diminishes the quality of financial statements. CSRD fully mediates the relationship between earnings management and firm value, demonstrating that CSR can alleviate investors' negative perceptions by signalling a company's commitment to social responsibility. Additionally, accounting conservatism weakens the adverse effects of earnings management on firm value while strengthening the positive relationship between CSRD and firm value. These findings highlight the strategic importance of combining CSRD and accounting conservatism to enhance investor confidence and stabilize firm value.

Theoretically, this research contributes to the literature by supporting Agency, Legitimacy, and Signals theories, which explain how CSR and accounting conservatism mitigate the detrimental effects of earnings management and improve firm value. Practically, companies are encouraged to enhance CSR disclosures as part of their strategic initiatives to strengthen stakeholder trust and improve reputational standing. Regulators are also advised to promote policies reinforcing accounting conservatism to ensure transparency and reliability in financial reporting. The combined implementation of these approaches can deliver long-term benefits for market stability and corporate sustainability.

However, this study has certain limitations. The sample is restricted to non-financial companies in Indonesia, potentially limiting the generalizability of the findings. The measurement of CSR is index-based, which may not capture all dimensions of CSR disclosure. Furthermore, external factors such as macroeconomic conditions and regulatory changes were not considered. Future research should broaden its scope to include financial companies and other regions, adopt more comprehensive CSR measurement methodologies, and incorporate relevant external variables to provide broader and more actionable insights into corporate value management.

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