THE IMPACT OF ENVIRONMENTAL AND SOCIAL COSTS DISCLOSURE ON FINANCIAL PERFORMANCE MEDIATING BY EARNING MANAGEMENT

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Abstract: The aim related to the article is to empirically investigate the effect of environmental cost disclosure and social cost disclosure on financial performance mediated by earning management. To achieve this purpose, a quantitative research method was employed using primary data sources and collected from the employees of international energy corporations. Then, the data were examined using smart Partial Least Squares (PLS). The study results revealed that the environmental and social costs disclosure significantly affected financial performance. This was in agreement with theories of instrumental stakeholders, legitimacy and agency. This means that more cost on environmental and social information disclosure can generate greater opportunities for corporations.

Key words: environmental cost accounting, earning management, financial performance, social cost disclosure.

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Introduction

The phenomenon of environmental and social accounting emerged with the societies' need for social accounting reports similar to those of capital markets (Gavurova et al., 2018; Gavurova et al., 2019). This has required financial data provided by financial accounting frameworks. Likewise, users of social accounting data need information, enabling them to judge if the organization is being socially and financially responsible or not. Regardless of social accounting, green accounting and reporting is a new phenomenon and relatively suffered at lack of any mandatory codes or regulation towards the mandatory disclosure. Hence, the organizations are voluntarily engaged in reporting several social responsibility activities in their annual financial reports. Globally, it appears that organizations have progressed in substantial issues further than those found in the literature.
Here, the problem arises when the organization does not invest heavily in environmental reporting due to the poor understanding of environmental issues or

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increasing the costs of incurred environmental disclosure. According to Sutopo et al (2018), only a few investigations have been done in the area of environmental accounting like reporting and its effect on the association's financial performance (Valaskova et al., 2018; Dvorský et al., 2019). Consequently, most associations are starting to spend much of their income on social activities, leading them to vague vision towards environmental accounting.

There is a long-running discussion on the effect of green or environmental accounting on firms, particularly in corporate financial performance. This discussion illustrates numerous parallels with investigations of corporate social responsibility. The conventional financial argument showed the advantages of natural accounting for firms that will collect a limited extent to the organizations themselves. Therefore, firms have a motivating force to under embrace the environmental accounting disclosures (Ik and Azeez, 2020). This is done by driving firms to concentrate on decreasing extra generation costs and expanding consumer or purchasers' satisfaction and sales. In this context, the effect of the empirical connection between environmental and social costs on financial performance is significantly explicit. Thus, exploring a positive relationship between the two factors could offer help for the enormous contention. Although observational examinations on both aspects revealed differentiating results, firm heterogeneity or deem powerful impacts on the environmental accounting financial relationship were less investigated in the existing literature. As a result, this study aims at examining the effect of environmental and social costs disclosure on financial performance.

Hence, Epstein and Buhovac (2014) believed that nowadays, enterprises become increasingly oversensitive to environmental issues and partner's concerns and are endeavouring to convert into better corporate residents. Regardless of whether the inspiration is a worry for the society and environment, government guidelines, partner pressures or monetary benefit, the outcome is that managers must unveil huge improvements for a more adequately deal with their environmental effects. The association between environmental and social costs on firm performance in current debate remains inconclusive, offering further explorations for researchers, especially in the context of energy corporations.

Besides, by developing and using environmental accounting, entities may have benefited from several advantages like strict control of environmental expenditure, leading to gaining more customers' trust. Therefore, higher incomes in the long-term sustainability and the environmental information disclosure in annual reports are highly utilized by big firms because of their effectiveness to report, in addition to being the main references of information for outside and inside shareholders such as customers, investors, creditors, employees, government and others.

They are motivated by the lack of a unanimous opinion on the effect of environmental and social costs disclosure on financial performance, Cavaco and Crifo (2014) aimed at discovering a consensus to this relationship by leading a board investigation of 300 greatest European listed market organizations. Their

outcomes showed that integral human asset and business activities are connected with financial performance. Also, they discovered that business and substitutable environmental behavior has a constructive relationship with financial performance. Therefore, the organization can be socially capable and profitable by effectively utilizing sustainability, driving new business openings, reducing cost and increasing client certainty. In any case, CSR does not lead directly to better financial performance; it is the consequence of the managers' moves that take into account simultaneously organization development and every social gathering.
Most investigations conducted on the relationship between environmental and social costs disclosure and financial performance are uncertain or contradictory, revealing positive or, in some cases, negative outcomes. Thus, this study introduces earning management as an intermediate variable. Stakeholders' theory and agency theory emphasized that environmental and social costs disclosure represent a proper examination mechanism to managing the smart behavior, decreasing the information asymmetry among supervisors and investors with conflicting premiums of the two sets and reflecting the actual financial performance. Based on the above description, the present study aims at exploring the effect of environmental and social costs disclosure on financial performance mediated by earnings management in the top 100 Global Energy Corporations.

Literature review

Instrumental Stakeholder Theory is framed using two hypotheses, proposing a positive connection between Corporate Social Performance (CSP) and Corporate Financial Performance (CFP). An instrumental hypothesis is a monetary theory, forecasting an outcome to occur because of the board choices (Mohammadali & Abdulkhaliq, 2019). The subsequent hypothesis is an ethical hypothesis whereby managers are obliged to meet partners' needs than to build the company's estimation. This hypothesis is wider than that of shareholders who claimed that managers should expand investors' estimation (Dibia & Onwuchekwa, 2015). The instrumental shareholders' hypothesis proposes CSR, which builds stakeholders' fulfilment and, ultimately, financial performance.
In agency theory, an agency relationship is an arrangement in which "an individual (the owner of economic resources) or more individuals run another person's (agent) (the one uses and controls these resources) work to perform or carry out some services on their behalf, including decision-making authority to the manager (agent)" (Shapiro, 2005; Hussain et al., 2020). The essence of this theory is to determine the conflict about the detachment of proprietorship and the board control of corporate assets (Hussain, Mosa, & Omran, 2018). Managers typically have sufficient details than principles. This information asymmetry unfavourably influences the essential's capacity to observe whether their advantage is in effect, appropriately served by the agents. In the agency hypothesis, managers are keen on

transient business execution, so they hope to accomplish a positive offer value impact.
Moreover, regarding CED, an acceptable corporate reputation and improved associations with various partners can be changed over to access financing. It is argued that constructing a friendly reputation is vital to dealing with investors' impressions. Interest in a proper undertaking reputation may maximize shareholder's wealth. This will further encourage holding unrivalled benefits in capital markets (Nawaz & Hassan, 2016; Straka et al., 2016; Mesarc, 2018). CSR exercises give an increasingly precise risk evaluation for speculators, thus offering access to outer financing at the most conceivable reduced expense. To attract potential investors by the expanded straightforwardness of information, the organization probably progresses and is in a fluid situation in stock exchanges. As such, managers engaged with earning management can be relied upon to make increasingly corporate environmental exposures seeking their advantage. For that, as a framework that underlines arrangements to society, the organization's activities ought to be as per the desires for society.

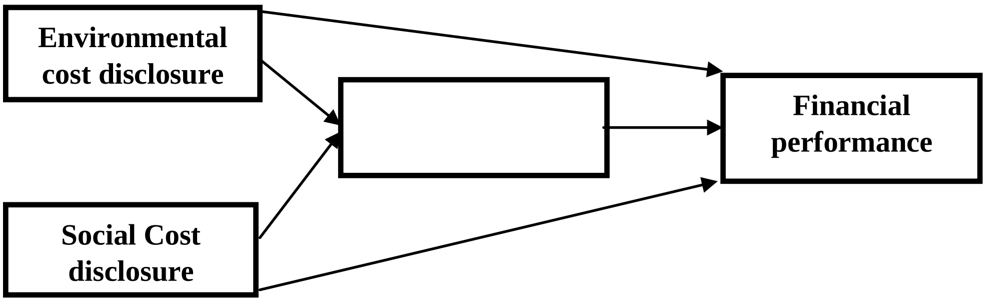

Figure 1: Research model

Environmental accounting means identifying and revealing explicit environmental costs, for instance, liability expenses or waste transfer costs. Environmental accounting includes any costs and advantages emerging from changes to the organization's properties or methods, such as the change in thinking and environmental effects. A further feature is that environmental accounting data are not necessarily the outcome of accountants, nor need accountants to apply them. Instead, they represent any data with both explicit and understood money related material utilized as a contribution to the company's decision making, product planners, monetary experts, and office administrators like the consumers of environmental accounting information. It also calls attention to any kind of information assembled and inspected by firms (Eze, Nweze, & Enekwe, 2016).
The empirical study on the relationship between environmental and social costs disclosure and financial performance is not clear yet as some investigations

revealed a negative relationship while others showed a positive one. However, other investigations found no relationship at all. From a positive perspective, a proper association with employees, suppliers and clients is vital for the organization's endurance while raising a few shareholders concerning CSR, such as symbolic or kind management skill. In particular, CSR resembles the reputation and the organization's reputation. In this manner, when an organization builds its expense or costs by improving CSR disclosure to increase competitive advantages, such CSR practices can enhance or increase organization reputation; therefore, the long sustainability would more improve the financial performance (Diskiene, Pauliene, & Ramanauskaite, 2019; Krajnikova, Smetankova, & Behunova, 2019).
Likewise, Nor, Bahari, Adnan, Kamal, and Ali (2016) studied the impacts of environmental information on financial performance in Malaysia, using top (100) organizations listed in the market for the year 2011. Their results showed the presence of environmental disclosure practices in Malaysia. Moreover, Cortez and Cudia (2011) contextually analysed Japanese gadgets organizations to determine the effect of environmental developments on their financial performance exhibition. They associated corporate social performance with benefit in electronic test organizations listed in the Tokyo Stock Exchange. Their findings focused on efforts of risk minimization in electronics firms despite decline in profitability.
Moreover, Uwuigbe and Jimoh (2012) examined corporate environmental disclosure, focusing much on cement manufacturing firms without analysing the cost components of the firms. It is found that in addition to other things, the degree of environmental disclosure practices is still very low. Moreover, Adediran and Alade (2013) explored the influence of environmental and social accounting on performance in (14) randomly selected Nigerian organizations. The data gathered from the annual report were analysed by employing Regression Analysis. It showed a negative connection between environmental accounting and profit for capital utilized and gaining per share. Besides, Al Azeez, Sukoharsono, and Andayani (2019) investigated CSR and financial performance. They argued that a firm's social responsibility and the company's financial performance have an essentially positive relationship between the two and that the firm’s social performance enhances the increase in gross margin.
Moreover, Chih, Shen, and Kang (2008) utilized an alternative variable to distinguish earning management. CSR is used and measured by scores from SiRi ProTM information in eight fields of research, for example, business exercises and CSR activities. It is found that CFP is a significant control variable when inspecting the relations among CSR and EM using varied perspectives of Chih et al. (2008) who argued that when the managers demonstrate their very own support of overseeing income, there are more intentions to take part in several CSR exercises. Moreover, they proposed that CSR is seen as a secondary tool to accumulate support from other groups of stakeholders, whose benefits are damaged by earning management practices. Thus, corporate governance (CG) working as a controlled system is a protection mechanism to reinforce and improve

organizational legitimacy. In this way, organizations are inspired to focus on CSR, for example, volunteering in the community or socially and environmentally conscious investments, and social and environmental disclosure responses affecting corporate financial performance. Hence, more obligations will be performed if firms implement CSR practices as an outcome of earnings manipulation; the positive effect of CSR on CFP is negatively mitigated. Based on this discussion, the hypotheses are formed as follows:

Table 1: Hypotheses development

H1	The Environmental cost has a significant effect on the reduction the earning management
H2	The environmental cost has a significant effect on the increase in financial performance
H3	The environmental cost has a significant effect on the increase in financial performance mediated by earnings management
H4	The social cost has a significant effect on the reduction the earning management
H5	The social cost has a significant effect on the increase in financial performance
H6	The social cost has a significant effect on the increase in financial performance mediated by earnings management
H7	Earnings management has a significant effect on the reduction in financial performance

Research methodology

The present investigation employed a quantitative method and Smart PLS to examine the data. The largest 250 global energy corporations represented the research community, using the questionnaire method to collect the data. In this study, the corporations which own assets more than 5 billion in USD currency were selected. The final sample was 450 employees. This study consisted of four variables, as clarified such as Earnings Management (EM) is measured by Ali Shah, Butt, and Hassan (2009) using two methodologies. Formerly, most analysts preferred cash flow method. For example, Hribar and Collins (2002) supported the utilization of cash flow-based methodology for the computation of all-out collections.

The disclosure of environmental cost includes disclosure for the management approach which comprises environmental aspects (for example, materials, vitality, water, biodiversity, outflows, effluents and waste), items and administrations, consistence, transport, and in general, objectives applicable to environment viewpoints, strategy, hierarchical duty, checking and development and extra relevant data (GRI, Sustainability Reporting Guidelines).

The social cost disclosure dimension of reasonability concerns the impacts on affiliation it has on the social systems within which it works. The disclosure of social cost would be categorized into four perspectives: labour practices and tolerable work, human rights, society and product duty. The information to be

unveiled would be the financial performance and environmental performance, including the management approach, objectives, strategy, authoritative duty, preparing and awareness, observing and follows up, and extra logical data. Each information would be accounted for depending on the relationship of social viewpoints (GRI, Sustainability Reporting Guidelines). GRI rule scoring would be utilized in measurement if the organization revealed the GRI based rule; giving (0.5) social materials, (1.0) condition material and (0.0) for no disclosure.
Financial performance is the extent of how far good a firm can run the assets from its fundamental mechanism for achieving sustainable business and making revenues. The aspects of financial performance to be measured are categorized in indicator of Return on Asset (ROA), which was used as an intermediate for financial performance in this examination. Indeed, many organizations globally always work to develop their performance through financial techniques (Yousif, 2010; Izarikova 2014).

Findings

The evaluation model used in this study was based on partial least squares (PLS) to roughly calculate parameters and predict cause and effect relationships by assessing the outer model as well as the inner model. Based on table 2, it is clear that the estimation of AVE in each development was bigger than (0.5). In addition, Alpha and CR are also larger than 0.70. Therefore, in light of the management results, it may be well presumed that the convergent legitimacy was met. These figures are shown in Table 2.

Table 2: Algorithm

	Cronbach's Alpha	Composite Reliability	(AVE)
CP	0.854	0.814	0.652
ECD	0.842	0.754	0.614
EM	0.741	0.763	0.732
SCD	0.912	0.865	0.699

To test discriminant validity, cross-Loading was examined on the off chance that the estimation of one specific variable or construct was more than (0.7). Given the Cross-Loading (shown in table 3), it is inferred that if the discriminant validity met for each marker in every factor was more than (0.7) regardless of indistinguishable conditions from the past loading factor evaluation, and there would be an estimation less than (0.7). Yet, this is simultaneously considered substantial because the variable has esteem bigger than (0.5). However, **the** reliability test was done using two strategies: Cronbach's Alpha, which was larger than (0.6) and composite reliability esteem, which was supposed to be higher than (0.7). As indicated by the calculation in Table 2, all factors had the estimation of Cronbach's Alpha, which was higher than (0.6). The composite reliability esteems were more than (0.7). Therefore, the information and consequences of estimations were safe and reliable.

Table 3; Cross loading

	CP	ECD	EM	SCD
CP	1.0000	0.3948	-0.7422	0.5672
ECD	0.3948	1.0000	-0.5573	0.2523
EM	-0.7422	-0.5573	1.0000	-0.6078
SCD	0.5672	0.2523	-0.6078	1.0000

There were direct and indirect effects, as clarified in Table 7. In hypothesis testing, when the coefficient path resulted from T-statistics was bigger than 1.96 or p-value < 5% (0.05), the alternative hypothesis could be expressed as supported. Moreover, if the estimation of T-statistics was less than 1.96 or p-value>5% (0.05), at that point, the alternative hypothesis was not supported. The outcome of hypotheses testing on the environmental costs had a significant effect on the reduction of the earning management and T-test was 7.2001; while T-table was 1, 96, because T-test > T-table that is 7.2001> 1.96 or p-value (0.000) < α = 0.05. This influenced X1 environmental cost on earnings management. It can be concluded that Hypothesis 1 is accepted. The outcome revealed the significant effect of environmental cost on the enhancement of financial performance. T-test was 4.8455; while T-table was 1, 96 because T-test > T-table that is 4.8455> 1.96 or p-value (0.000) < α = 0.05. This indicates that X2 environmental cost on financial performance results was significant. So, Hypothesis 2 is accepted. The results of environmental cost effect on the increase of the financial performance mediated by earnings management indicated that T-test was 4.8455; while T-table was 1, 96 because T-test > T-table that is 4.8455> 1.96 or p-value (0.000) < α = 0.05. Thus, Hypothesis 3 is accepted. The results of social cost on the reduction of earning management revealed that T-test was 6.5685; while T-table was 1, 96 as T-test > T-table that is 6.5685> 1.96 or p-value (0.000) < α = 0.05. Hence, Hypothesis 4 is accepted. The outcome of social cost on the financial performance implied that T-test was 6.8806; while T-table was 1. 96 since T-test > T-table that is 6.8806> 1.96 or p-value (0.000) < α = 0.05. Therefore, Hypothesis 5 is accepted. The outcome of social cost on the financial performance mediated by earnings management showed that T-test was 4.5441; while T-table was 1. 96 as T-test > T-table that is 4.5441> 1.96 or p-value (0.000) < α = 0.05. Thus, the influence of X1 environmental cost on earnings management results was significant. Therefore, Hypothesis 6 is accepted. The results of earning management on the reduction of financial performance revealed that T-test was 6.0702; while T-table was 1.96 as T-test > T-table that is 6.0702> 1.96 or p-value (0.000) < α = 0.05. Therefore, Hypothesis 7 is accepted.

Table 4: T-test direct effect

Construct	Original Sample	Sample Mean	Standard Deviation	T-Statistics	P Values
ECD -> EM	-0.4314	-0.4311	0.0599	7.2001	0.0000
ECD -> CP	0.2731	0.2740	0.0564	4.8455	0.0000
ECD -> EM -> CP	0.2731	0.2740	0.0564	4.8455	0.0000
SCD -> EM	-0.4990	-0.5028	0.0760	6.5685	0.0000
SCD -> CP	0.4994	0.5009	0.0726	6.8806	0.0000
SCD -> EM -> CP	0.3159	0.3195	0.0695	4.5441	0.0000
EM -> CP	-0.6331	-0.6369	0.1043	6.0702	0.0000

Discussion

The findings of this study showed a relationship between environmental and social costs disclosure and financial performance mediated by earnings management. Based on these results, the direct effect was measured using the validity test depending on relevant previous results. Hence, the environmental cost has a remarkable impact on the reduction of earning management. This result is consistent with that found by Palacios-Manzano, Gras-Gil, and Santos-Jaen (2019) who revealed that CSR practices are considered a powerful device to accumulate supported by different partners whose interests are damaged by earnings management practices. Moreover, Corporate Governance as a checking framework is a key system to strengthen or fix organizational authenticity. In this manner, organizations are persuaded to focus on CSR practice, for example, voluntary, corporate, social and environmental disclosure responses, which will impact their financial performance. Nevertheless, they remark that if an organization takes part in CSR exercises as a result of income control, the favourable effect of CSR on CFP will be adversely relieved. Thus, this result agrees with agency theory.

The environmental cost influences the enhancement of financial performance, which is consistent with the shareholder's theory. There is a positive relationship between Corporate Social Performance (CSP) and CFP. This result differs from that found by Iqbal, Sutrisno, Assih, and Rosidi (2013), which showed that firms' expenses on environmental and social issues are not proportionate to their financial performance and that CSR is a matter of concern to the government. Thus, the environmental cost has a considerable impact on enhancing corporate performance mediated by earning management.

This relationship between social cost disclosure and financial performance can be explained by companies trying to reduce the implicit costs to act socially responsible. That would increase the explicit cost and, in turn, lead to a competitive disadvantage (decline in profits). Thus, social cost disclosure and CSR improve relations with stakeholders. This relationship increases competitive advantage and improves financial performance. Overall, environmental and social cost disclosures are activities that give an increasingly precise risk assessment for stakeholders, and, therefore, will offer access to outside financing at the most conceivable reduced expense. Concerning bringing more potential stakeholders through the expanded straightforwardness of information, the organization is probably going to be in a progressively hard and flexible situation in stock exchanges. Finally, managers engaged in profit controls are required to make increasingly corporate environmental disclosures, seeking their very own advantage.

Conclusion

From an accounting perspective, this study aimed at examining the effect of environmental and social costs disclosure on financial performance mediated by earnings management based on the literature available and applicable theories including instrumental stakeholders, agency and legitimacy. The study revealed the impact of environmental and social costs disclosure on financial performance mediated by earning management. Consequently, the environmental and social disclosure has a considerable impact on increasing corporate performance, which is consistent with theories of instrumental stakeholders, agency and legitimacy. This means that more cost on environmental and social information disclosure can create a room for an organization to enhance its reputation. Hence, most organizations announce environmental data to clarify their activities and needs. The environmental exposure for the management approach comprises of environmental factors like materials, water, energy, biodiversity, outflows, effluents, waste, items, services, consistence and transport. Moreover, the cultural concern will, in general, be recognized as a considerable corporate responsibility to communicate among organizations and society concerning social obligation and sustainability. The social disclosure cost would be divided into four viewpoints: labor practice and conventional work, human rights, society and product responsibility. Accordingly, the corporate social and environmental revelation may be treated as a genuine and social commitment made by the association. However, because of inadequate reviewing regarding the genuine economy, managers have motivating forces to take optional activities over revealed salary to maximize their advantage. Moreover, the earnings management will accumulate when managers mislead some stakeholders about the underlying economic performance of the corporation. The limitations of the study are as follows it takes only two predictors and ignore other factors that affect financial performance and suggested that upcoming studies should include more factors in their studies. In addition, the present study took only no moderation in the study and recommended that further study should add moderator in their analysis.

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WPŁYW UJAWNIANIA KOSZTÓW ŚRODOWISKOWYCH I SPOŁECZNYCH NA WYNIKI FINANSOWE NA ZARZĄDZANIE ZAROBKAMI

Streszczenie: Celem związanym z tym artykułem jest empiryczne zbadanie wpływu ujawnienia kosztów środowiskowych i ujawnienia kosztów społecznych na wyniki finansowe za pośrednictwem zarządzania zarobkami. Aby osiągnąć ten cel, zastosowano metodę badań ilościowych z wykorzystaniem pierwotnych źródeł danych i zebrano od pracowników międzynarodowych korporacji energetycznych. Następnie dane zostały zbadane przy użyciu inteligentnych częściowych najmniejszych kwadratów (PLS). Wyniki badania wykazały, że ujawnienie kosztów środowiskowych i społecznych znacząco wpłynęło na wyniki finansowe. Było to zgodne z teoriami interesariuszy instrumentalnych, legitymacji i agencji. Oznacza to, że wyższe koszty ujawniania informacji środowiskowych i społecznych mogą generować większe możliwości dla korporacji.

Słowa kluczowe: rachunkowość kosztów środowiskowych, zarządzanie zarobkami, wyniki finansowe, ujawnianie kosztów społecznych

环境和社会成本披露对盈余管理介导财务绩效的影响

摘要:本文的目的是实证研究环境成本披露和社会成本披露对盈余管理介导的财务绩效的影响。为了达到这个目的，采用了一种定量研究方法，该方法使用的主要数据来源是从国际能源公司的员工那里收集的。然后，使用智能偏最小二乘(PLS)检查数据。研究结果表明，环境和社会成本的披露显着影响了财务绩效。这与工具性利益相关者，合法性和代理的理论是一致的。这意味着更多的环境和社会信息披露成本可以为公司带来更多机会。

关键词:环境成本会计，盈余管理，财务绩效，社会成本披露。