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The Role of Organizational Governance and Environmental Social Performance on Fraud Tendency

✉[1]Melisa Anggraini, [1]Dwi Hayu Estrini, [2]Puspita Puji Rahayu
[1]Departemen Akuntansi, Fakultas Ekonomi, Bisnis, dan Humaniora, Universitas Nasional Karangturi Semarang, Indonesia
[2]Departemen Psikologi, Fakultas Ekonomi, Bisnis, dan Humaniora, Universitas Nasional Karangturi Semarang, Indonesia

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ABTRACT
This study aims to analyze the relationship between the independent board of commissioners, managerial ownership, and social environmental performance towards fraud. The sample of this research consists of 121 companies from the Asia Pacific Emerging Market and listed on Bloomberg's database from 2016 to 2022. The multiple regression analysis is conducted to examine the relationship between the independent board of commissioners, managerial ownership, and social environmental performance towards fraud. The findings of this study showed that independent boards of commissioners and managerial ownership don't affect fraud, but social-environmental performance does. This study contributes to the existing literature by providing evidence on the global market and how the elements of corporate governance and social environmental performance can affect fraud. This study also supports the stakeholder theory, which proposes that when a company makes social environmental performance a strategic orientation of the company, then fraud can be minimized because the company is not just responsible for itself but also for the other stakeholders.

Keywords: Corporate Governance, Fraud, ESG.

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✉Corresponding author :
Email: melisa.anggraini@unkartur.ac.id

1. INTRODUCTION

Before making an investment decision, investors and creditors rely on the information in the financial statements to analyze the company's financial performance (Wijaya & Kuang, 2023). Since financial statements are used for decision-making by both internal and external parties, they must present high-quality financial information and offer trustworthy data in accordance with generally accepted accounting standards (Andayani & Wuryantoro, 2023). In the past few years, there has been a significant increase in public awareness of large corporations and their disclosures of fraud and false reporting. This has been accompanied by a heightened focus on the high compensation that executives receive and the mismanagement that resulted in the bankruptcies that these corporations experienced (Abri et al., 2019). One such example is the falsification of financial statements by altering transaction data or financial statements during the presentation of financial statements in order to conceal the true financial condition and maximize profits (Andayani & Wuryantoro, 2023). Fraudulent activities are frequently precipitated by a multitude of factors. Fraudsters may capitalize on vulnerabilities and gaps in corporate governance in high-risk financial environments and complex financial instruments (Sharma et al., 2023).

To establish effective and efficient mechanisms against scandals, fraud, and corruption at the corporate level, many individuals consider that corporate governance is a significant factor in the reduction of corporate fraud and corruption (Naomi & Akbar, 2023). At present, corporate governance systems have a substantial influence on financial reporting and fraud in companies; corporate governance is a framework of rules, practices, and processes that control and direct companies, including the allocation of rights and responsibilities among various stakeholders, including shareholders, management, customers, suppliers, financiers, governments, and society (Sharma et al., 2023). Financial statements released to the public will be error-free, and fraud will be reduced as a result of good corporate governance (Abri et al., 2019). Enhancing corporate governance through a more robust institutional framework, for instance, by raising the quality of the board of commissioners and enforcing transparency standards, can lessen the opportunity for managers and other internal parties to conceal corruption; the board of commissioners also serves as an advisory body before the company makes decisions by putting corporate control mechanisms into place (Naomi & Akbar, 2023; Tarjo et al., 2022). The board carries out this duty by selecting or firing executive managers, setting their pay, and monitoring their actions with the ultimate goal of stopping them from committing fraud (Tarjo et al., 2022). Another pillar of effective governance is managerial ownership. Managerial actions to increase shareholder wealth when managers have more ownership in the company are not far from expectations because their interests depend on the interests of the company, agency costs will be reduced, and the manager's motivation to commit fraud will no longer be justified (Seifzadeh et al., 2022).

Conversely, the topic of economic, social, and environmental performance has drawn attention from a number of stakeholders. As part of the current integrated reporting initiative, which mandates that organizations integrate their financial and non-financial performance, stakeholders will depend on third-party verification for non-financial data that companies provide regarding increased corporate accountability (Darus et al., 2014). Companies that apply environmental, social, and governance principles can boost company performance over the long term, increase investor interest, and reduce profit management practices. It is anticipated that the implementation of environmental, social, and governance disclosures will help companies increase accountability and transparency, particularly in financial reporting (Wijaya & Kuang, 2023). Companies that publish environmental performance reports can improve the protection of their corporate reputation while reducing the impact of fraud, so that the act of improving environmental performance scores can help companies increase their credibility; investors and consumers are more willing to trust and defend the behavior of related companies (Gen et al., 2022).

Various studies related to governance and environmental performance against *fraud* have been carried out by several previous researchers. Research conducted by Li et al. (2021) and Wijayanto (2015) shows that when managerial ownership is larger, the likelihood of management committing financial reporting fraud is higher to meet the interests of managers, managers who are in an ineffective governance environment tend to be more able to use CSR activities speculatively to serve their own interests. Seifzadeh et al. (2022) and Rostami & Rezaei (2022) finding that managerial entrenchment and financial statement fraud have a negative and substantial correlation, companies that have management entrenchment will have a lower chance of fraud in financial statements, in other words, strong, autonomous managers at their organizations are less likely to commit fraud because they have job security and are not subject to outside pressure. Rostami and Rezaei (2022) found that *fraud* tends to decrease when managerial ownership increases, while Khomariah and Khomsiyah (2023), Girau et al. (2022), Widowati and Oktoriza (2021), and Triyani et al. (2019) found that managerial ownership had no effect on fraud. Aldaoud (2019), Liu et al. (2023), Nour et al. (2023), Rostami and Rezaei (2022), Tarjo et al. (2022), and Ebaid (2023) found that the results of the study were consistent with the results of previous studies, which confirmed that the greater the independence of the board of commissioners, the more effective its monitoring role is, and thus the lower the likelihood of fraud in financial statements. On the contrary, Girau et al. (2022), Widowati and Oktoriza (2021), and Triyani et al. (2019) found that the independence of the board of commissioners had no effect on fraud. The results of several studies conducted by Hady and Chariri (2022), Gen et al. (2022), and Harjoto (2017) show in statistical data that social and environmental performance reporting has a negative influence on fraud. On the other hand, the research conducted by Li et al. (2021) found that CSR values tend to be high when companies commit fraud.

Research related to corporate governance, social and environmental performance, and fraud has increased rapidly, but the role of corporate governance and environmental social performance in the global environment still needs to be explored (Li et al., 2021; Nour et al., 2023). Many previous studies have examined the relationship between corporate governance, environmental social performance, & fraud, have yielded mixed results. However, research related to this in the scope of the global economy has still not been thoroughly analyzed. Therefore, this study shows how governance and social and environmental performance have an effect on the occurrence of fraud at the global level. Policymakers, investors, and other stakeholders must comprehend the relationship between environmental social performance and corporate governance procedures in a global setting. The main objective of this study is to analyze the influence of corporate governance and social and environmental performance on fraud in the global economy. Another purpose of this study is to fill in the research gaps in various existing research works of literature. The contribution of this research lies in the development of literature related to environmental accounting, behavioral accounting, and auditing, especially related to fraud detection. As far as researchers know, research on how social and environmental performance is related to fraud on a global scale has not been conducted in depth. The implications of this research are important for management teams and related stakeholders to consider their corporate governance systems in the context of fraud prevention, in addition to the important research implications for companies related to policy decisions, social and environmental disclosure actions so that these actions can realize the organization's commitment to its stakeholders for the future sustainability of the organization.

2. LITERATURE REVIEW AND HYPOTHESIS

Agency Theory

The conflict of interest between the principal and the agent is the central premise of agency theory. In this instance, the principal is the company's shareholder or owner, while the agent is deemed the manager and in charge of overseeing its activities (Jensen & Meckling, 1976). Moreover, the agency theory rests on disputes that emerge between managers and shareholders when managers' (agents') performance and quality are at odds and are not confirmed by shareholders (principals). As a result, the agent or manager will operate in a way that serves his own interests and compromises the interests of the principals or shareholders (Fama & Jensen, 1983).

Fraud Pentagon Theory

The fraud pentagon hypothesis is an extension of Cressey's fraud triangle theory, to which Jonathan Marks added two components in 2009 that serve as fraud's catalysts. Later, this notion became known as the "Pentagon Fraud Theory" by Crowe Horwath (Maharani, 2016). This theory states that there are several factors that are described as elements that can encourage someone to commit fraud. The **stress factor** arises because individuals can commit fraud and breach trust if they feel that they are facing financial difficulties and are financially unstable (Abri et al., 2019; Lombardo, 2015). **Opportunity** means the ability and opportunity to commit fraud (Abri et al., 2019; Lombardo, 2015; Rostami & Rezaei, 2022). Opportunities can arise from a variety of factors, including inadequate internal controls, inadequate monitoring, lack of prosecution for violations committed by companies, ineffective anti-fraud programs, weak policies, and a culture of ethics. **Rationalization** is a mentality that allows managers to rationalize and justify their dishonest activities; An individual, for example, an employee, will provide justification reasons that cause them to feel right in committing fraudulent activities(Abri et al., 2019; Gen et al., 2022; Lombardo, 2015; Rostami & Rezaei, 2022). **Competence** includes the ability of individuals to override the existing control in their company, create strategies to cover up fraud, and control social situations for personal gain, while **arrogance** is the superiority or greedy nature possessed by fraudsters. They believe that the rules or procedures in the company do not apply to them, so they completely ignore the consequences of the *fraudulent* actions committed (Maharani, 2016).

Stakeholder Theory

According to stakeholder theory, organizations are seen as components of a larger social system in which other social groups both influence and are influenced by them (Deegan, 2014). According to stakeholder theory, agents engage in a network of interactions with external parties on behalf of the corporation, and businesses prioritize their accountability to larger stakeholders beyond the organization (Naomi & Akbar, 2023). Stakeholder theory's moral or ethical stance contends that all parties involved should be treated equally by the organization and that stakeholder power is not a directly relevant problem (Deegan, 2014). The organization's accountability to its stakeholders should be based on how it affects those stakeholders (Deegan, 2014).

Independent Board of Commissioners and Fraud Tendency

One element that can be used as a method to find financial statement fraud is an independent board of commissioners. The role of independent commissioners, who are members of the board of commissioners from outside the firm, is to act as a balance when making decisions (Amaliyah & Herwiyanti, 2019). Given their disinterest in the day-to-day operations of the company, it is reasonable to assume that the independent board of commissioners will not be influenced by any organizational level; consequently, the board is more likely to act independently and in the best interests of shareholders (Angelina & Chariri, 2022). Because of its independence, the board of commissioners has more authority to oversee the operations of the corporation, which lowers the likelihood of fraud (Angelina & Chariri, 2022). Angelina and Chariri (2022) discovered that the study's findings aligned with those of earlier research, demonstrating that the likelihood of financial statement fraud decreases with the board of commissioners' degree of independence and the effectiveness of its oversight function. Meanwhile, Widowati and Oktoriza (2021) found that the independence of the board of commissioners did not affect the possibility of fraud. Therefore, the first hypothesis in this study is:

H1: The existence of an independent board of commissioners will reduce the fraud tendency.

Managerial Ownership and Fraud Tendency

When a company's management owns a certain percentage of its shares, that ownership is referred to as managerial ownership (Jensen & Meckling, 1976). While senior staff and the company are responsible for designing and implementing effective fraud prevention mechanisms to reduce the manipulation of the company's financial numbers and information, management has more access to the financial statement preparation process (Seifzadeh et al., 2022). Agency theory is critical for corporate governance because the top agent or manager in the company has better and more information about the company's operations than the shareholders/owners (M. C. Jensen & Murphy, 1990). Conversely, a high degree of managerial ownership may result in an entrenchment effect, which implies that management will have a strong hold over the business and that it will be challenging for outside parties to regulate the manager's behavior (Nurleni et al., 2018). Other reasons, such as pressure, opportunity, rationalization, and arrogance, can lead to the use of human resources' expertise, competencies, and positions to commit fraud (Maharani, 2016; Wijaya & Kuang, 2023). If the manager's interests are aligned with the owner's interests, the agency's costs will be reduced and the manager's motivation to commit fraud will no longer be justified, as a result, the CEO's appreciation and managerial ownership in the company's stock can be a positive and motivating factor to protect the interests of shareholders and better the company's performance (Seifzadeh et al., 2022). Seifzadeh et al. (2022) discovered that there is a significant and negative correlation between management entrenchment and financial statement fraud. In other words, businesses with strong, independent managers are less likely to commit fraud because they enjoy job security and are not subject to outside pressure. In line with those research, Rostami and Rezaei (2022) found that fraud tends to decrease when managerial ownership increases. Based on the results of the above description, the second hypothesis in this study is:

H2: Managerial ownership will reduce the fraud tendency.

Social and Environmental Performance and Fraud Tendency

The term "corporate social responsibility" refers to the idea that businesses should actively integrate social and environmental concerns into their operations and interact with stakeholders (Gen et al., 2022). Balancing the interests of stakeholders and the needs of the company is essential for the sustainability of the company (Naomi & Akbar, 2023). In addition to being expected to conduct business with integrity and morality, environmental and social performance reporting is a strategic move made to improve and uphold a company's reputation. It is assumed that the company has a social contract with society at large and must be able to provide reliable financial information to its stakeholder group, in this case, including shareholders (Darus et al., 2014). According to stakeholder theory, social and environmental reporting activities are the strategic orientation of a company that can implement its environmental and social responsibility activities while achieving its economic goals so that stakeholders in the company are more likely to be responsible for the company and socially responsible, the company will be able to avoid fraud to a certain extent (Gen et al., 2022). The results of the research conducted by Hady and Chariri (2022) and Harjoto (2017) show that CSR has a negative influence on fraud. In line with the results of that study, Gen et al. (2022) show that the CSR Score factor has a negative and major relationship with fraud, which means that CSR can be a practical approach to reducing the frequency of corporate fraud. Based on the results of the above description, the third hypothesis in this study is:

H3: Social and environmental performance has a negative effect on the fraud tendency.

3. METHODS

In order to verify the theory, this study employs numerical data. This study uses fraud as its dependent variable. The independence of the board of commissioners, management ownership, and social and environmental performance, on the other hand, are the independent factors in this research. This study uses several control variables, including inflation rate and Gross Domestic Product for macroeconomic variables; DER, ROA, and state-owned enterprise status as microeconomic variables. The data were tested using the normality test and the classical assumption test, and then the data were tested using dynamic panel GMM analysis with the STATA program.

Sampling & Data Collection

The research sample was taken from the Bloomberg database using a purposive sampling technique by setting several criteria, namely: the company is listed in the Bloomberg database and has an ESG Disclosure Score consecutively in the observation period from 2016 to 2022, and has complete research data. The research period that is the observation point of this study is from 2016 to 2022, because in 2023, the social and environmental performance scores in the Bloomberg database are still incomplete. The companies that were sampled in the study came from all companies from various sectors but did not include the financial sector from developing countries in the Asia Pacific, including Bangladesh, China, India, Indonesia, Macau, Malaysia, Pakistan, Philippines, Sri Lanka, and Vietnam. This study took samples from developing countries because previous studies focused more on developed countries. Developing countries are still underrepresented in the research literature, so it is important to expand the scope of research to be more inclusive and globally representative. This research was conducted in the Asia Pacific region because this region includes many developing countries that are experiencing rapid economic growth and social transformation. In addition, Asia Pacific has a complex cultural diversity, governance system, and development challenges, making it a relevant context for examining social, economic, and public health dynamics. Many developing Asia-Pacific countries face serious environmental risks (e.g., climate change, natural disasters, deforestation), which merit close study. From that period, 121 companies were found to have complete research data.

Measure

The independent variables in this study are the independence of the board of commissioners, managerial ownership, and social and environmental performance. The independence of the board of commissioners is calculated using the percentage of the proportion of the number of independent members of the board of commissioners divided by the total number of the board of commissioners (Angelina & Chariri, 2022). Managerial ownership is measured by dividing the proportion of share ownership owned by management by the total number of shares of the company outstanding in the market (Rostami & Rezaei, 2022). Social and environmental performance will be measured using the ESG Disclosure Score issued by Bloomberg (Agarwala et al., 2023)the study has attempted to investigate how firm characteristics like size and performance influence corporate social responsibility (CSR. The ESG Disclosure Score is commonly used as a proxy to measure environmental performance, published by Bloomberg (Tampakoudis et al., 2021). The dependent variable in this study is fraud, which can be measured by using Dechow's F-score, namely in the form of summing up accrual quality and financial performance, which includes two variable components and can be described in the company with the following formula (Jannah et al., 2021):

F-Score= Accrual Quality + Financial Performance

The quality of accruals is measured by accrual RSST, while financial performance is measured by including receivables, inventory, cash sales, and company profits (Jannah et al., 2021). Accrual Quality is calculated by the formula:

$$RSST\ Accrual = \frac{(\Delta WC + \Delta NCO + \Delta WC + \Delta FIN)}{ATA}$$

Where:

WC (Working Capital) = Current Assets – Current Liability

NCO (Non-Current Operating Accrual) = Non-Current Assets – Long Term Debt

FIN (Financial Accrual) = Total Investment – Total Liabilities

ATA (average total assets)= (Sum of Asset on Beginning Period+Sum of Asset on End Period)/2

Financial Performance=CIR+CIN+CISA+CIE

CIR (Change in Receivable)=ΔReceivable/ATA

CIN (Change in Inventory)= ΔInventory/ATA

CISA (Change in Cash Sales)= ΔSales/(Sales (t))-ΔReceivable/(Receivable (t))

CIN (Change in Receivable)= ΔReceivable/ATA

CIE (Change in Earnings)= (earnings (t))/(ATA(t))-(earnings (t-1))/(ATA(t-1))

If the F-Score is less than 1 (<1), the company is not committing fraud, while if the F-Score is more than 1 (>1), then the company is suspected of committing fraud in its financial statements. The F-Score 1 (F-Score = 1) indicates that the company has the same probability of misstatement between the probabilities predicted by unconditional probability (the possibility of an event ending with certain results regardless of other conditions that may exist) (Ratmono et al., 2020). Therefore, financial reporting fraud is measured by dummy variables, code 1 if the company commits financial reporting fraud and code 0 if it does not commit financial reporting fraud (Jannah et al., 2021).

4. RESULTS AND DISCUSSION

The research sample in this study consists of various companies in developing countries in the Asia Pacific, including Bangladesh, China, India, Indonesia, Macau, Malaysia, Pakistan, the Philippines, Sri Lanka, and Vietnam. Most of the companies in this research sample are non-state-owned companies. The research sample came from various industries, including manufacturing, pharmaceuticals, telecommunications, construction, energy and mining, technology, logistics, and hospitality. The financial industry is excluded from this sample collection criterion. The results of descriptive statistics in this research sample can be seen from Table 1.

Tabel 1. **Descriptive Statistics**

Variable	Obs	Mean	Std. dev.	Min	Max
FScore_w	854	0,0105386	0,1021754	0	1
ESG_w	854	41,6084500	11,1344800	20,68	65,81
IRT	854	3,4659480	4,4828630	-1,13870	49,721
GDP	854	4,0025600	5,0495710	-54,236	19,26706
BUM	854	0,3782201	0,4852271	0	1
IBC_w	854	41,6606000	14,8571200	10	75
MOW_w	854	5,2743110	10,6803900	0,001	52,829
DER_w	854	73,2901200	75,0717000	0	525,94
ROA_w	854	5,2665120	6,8213320	-13,24	31,87

Source: Processed Data

The descriptive statistical data above reflect the observations in this research. Research data from 121 companies was collected and observed for 7 years, from 2016 to 2022. The results of this observation resulted in 854 observable data. From the results of the descriptive statistics above, it can be seen that the F-score has a frequency of 0.0105386, which means that most of the research sample does not commit fraud, only 1% of companies from the total amount of sample that committed fraud. Fraud is only carried out by five samples, namely by Asia Cement in 2021, Shui On Land in 2017, Suning.Com Co.. in 2016, Yunnan Copper in 2019, and Ace Hardware Indonesia in 2019. This means that most companies in this sample are following the financial regulation. Managerial ownership has a mean of 5.274, which means that most of the research sample has a small portion of managerial ownership. Most of the research samples have a fairly high independence of the board of commissioners, which is reflected in the mean value of 41.66. Based on the statistical descriptive result above, 48,5% of companies in this sample are state-owned enterprises, which is reflected in a mean value of 0,4852. The ESG score owned by the sample in this study is a total of 41,608, which means that social and environmental disclosure in developing countries in the Asia Pacific Emerging Market region is still voluntary, so the ESG score is still below the standard (Table 2).

Based on the results of the multi-collinearity test using the Pearson Product Moment Correlation Test above, it can be seen that the research sample has passed the multicollinearity test because the data does not have any of the above value 0,8 (Hair et al., 2019). The normality test was carried out with the Sapiro Wilk Test with the results mostly below 0.5. This indicates that the distributed data is abnormal and should be done with winsorization data for outliers in the data panel (Rahayu et al., 2024). The heteroscedasticity test was carried out by conducting the Wald Test, and the results showed that the research data did not pass the heteroscedasticity test due to the (Prob/Chi)< 0,05 (Rahayu et al., 2024). The data was then tested with the Woolridge Test to test autocorrelation, the results of the panel data in this study passed the autocorrelation test because the results (Prob/F)>Alpha 0,05 (Rahayu et al., 2024).

Regression Test Results

The research data was tested using the Hausmann Test to select fixed effect models or random effect models to test the hypothesis. The results of the Hausmann Test show that Prob>Chi2=0.6228, so it can be concluded that the model that is suitable for use is the random effect model. Because the research data did not pass the heteroskedasticity and normality tests, the robustness test was carried out to overcome this problem (Le & Phan, 2017).

Tabel 2. **Pearson Product Moment Correlation Test**

	FScore_w	ESG_w	IRT	GDP	BUM	IBC_w	MOW_w	DER_w	ROA_w
F-score	1,000								
ESG	-0,0254	1,000							
IRT	-0,0171	-0,1517	1,000						
GDP	0,0251	-0,0759	-0,0254	1,000					
BUM	-0,0097	0,292	-0,2356	0,0689	1,000				
IBC	-0,0042	0,4449	-0,2636	-0,0335	0,3175	1,000			
MOW	-0,0163	-0,1184	0,0214	-0,0316	-0,1033	-0,0857	1,000		
DER	-0,0255	0,1018	-0,0323	-0,0537	0,0738	-0,0205	-0,1026	1,000	
ROA	0,0033	-0,1876	0,1506	0,1711	-0,0085	-0,237	0,0257	-0,2577	1,000

Source: Processed Data

Le & Phan (2017) argues that both the fixed effect model and the random effect model are still potentially biased because the two models have not been able to overcome the endogeneity problem. The two models generally only control the problem of unobserved heterogeneity. Therefore, an IV estimator or dynamic panel GMM is used in this study. The results of using the GMM dynamic panel are as follows (Table 3).

Based on the results of the above test, the regression equation in this study is as follows:

Fraud=0,0767431-0,0016605ESG+0,0000137IBC+0,0005908MO-0,0008057IRT + 0,000189GDP - 0,0000302DER - 0,0000716ROA + 0,0119456BUM

Where

ESG = Social and environmental performance
GDP = Gross Domestic Product
IBC = Independence of the board of commissioners
DER = Debt-to-equity ratio
MOW = Managerial ownership
ROA = Return on assets ratio
IRT = Inflation rate
BUM = State-owned enterprises

It is evident from the regression analysis's results above that the IBC variable has an insignificant positive influence, which is indicated by a probability value of 0,982, which is much greater than the 10% level. That is to say, the study's first hypothesis was disproved. The results of this study are consistent with the research that has been conducted by Triyani, Kamalia & Azwir (2019), Widowati & Oktoriza (2021), and Girau et al. (2022). It is likely that the corporation only satisfies the minimum requirement of 30% of all commissioners on the independent board of commissioners, meaning that the independent board of commissioners is unable to stop the organization's predisposition toward fraud. The members of the independent board of commissioners are also not directly related to the company, so the monitoring function of the board cannot be maximized. As a result, it is difficult for the independent board of commissioners to be able to prevent fraud tendency.

According to the aforementioned regression results, the MOW variable has a positive but not statistically significant result, which is shown with a probability value of 0.684, which is much greater than 10%. Consequently, it can be concluded that this study's second hypothesis is unfounded. This can be because managers who have ownership in the company will tend to maximize their profits, namely by trying to display the best condition of the company, even though they have to commit fraud. The findings of this investigation are consistent with the work conducted by Triyani, Kamalia & Azwir (2019), Widowati & Oktoriza (2021), and Girau et al. (2022).

Tabel 3. **Multiple Regression Testing Using Dynamic Panel GMM**

	(1)	(2)	(3)
VARIABLES	FE	RE	GMM
L.FScore			-0.168Â *
			(0.096)
ESG	-0.001	-0.000	-0.002Â **
	(0.001)	(0.000)	(0.001)
IRT	-0.000	-0.001	-0.001
	(0.000)	(0.001)	(0.001)
GDP	-0.000	0.000	0.000
	(0.000)	(0.001)	(0.001)
BUM	-0.012	-0.002	0.012
	(0.017)	(0.009)	(0.016)
IBC	0.001	0.000	0.000
	(0.001)	(0.000)	(0.001)
MOW	0.001	-0.000	0.001
	(0.001)	(0.000)	(0.001)
DER	-0.000	-0.000	-0.000
	(0.000)	(0.000)	(0.000)
ROA	0.001	-0.000	-0.000
	(0.001)	(0.001)	(0.001)
Constant	0.018	0.025	0.077Â *
	(0.023)	(0.019)	(0.041)
Observations	846	846	725
R-squared	0.006		
Number of firm	121	121	121
AR (2) test (p-value)			0.170
Sargan test (p-value)			0.953
F value			2.17

Source: Processed Data

With a probability value of 0.043, which is significant at the 5% level, it can be inferred from the regression findings above that the ESG variable has substantial negative results. Put differently, the third hypothesis, which posits that fraud tendency is negatively impacted by social and environmental performance, is deemed credible. These results indicate that an increase in ESG scores will have a negative impact on fraud tendency. These results show that it is in line with the stakeholder theory that when a company conducts social and environmental reporting activities and makes these activities a strategic orientation of the company, the company is able to implement its environmental and social responsibility activities, the company is also able to achieve its economic goals and ensure its sustainability, the company will be able to avoid *fraud* because stakeholders within the company are more likely to be responsible for the company and socially responsible (Gen et al., 2022). The findings of this investigation are consistent with those of the studies conducted by Harjoto (2017), Gen et al. (2022), and Hady and Chariri (2022).

5. CONCLUSION

The goal of this research is to be able to examine the relationship between fraud tendency and the independence of the board of commissioners, management ownership, and social and environmental performance. The results of the study show that Corporate Governance proxied by independent commissioners and managerial ownership is proven to be able to reduce the tendency of fraud. Environmental and social performance is also able to reduce the tendency of fraud. Meanwhile, the independence of the board of commissioners and managerial ownership do not affect fraud tendency which can be because there is a possibility that the company only meets the minimum number of independent board of commissioners per applicable regulations and the manager only attaches importance to his own personal interests so that fraud cannot be prevented. Social and environmental performance is one of the factors that can be used to prevent fraud. This can be because the company is not only responsible for itself, but also all related stakeholders, so that the company will be able to avoid fraud. This study uses a limited research period, and the number of control variables and independent variables is also limited. Therefore, in future research, it is hoped that the research period can be extended and the scope of sample area can be expanded so that the result can be generalized.

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