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SUSTAINABILITY DISCLOSURE AND PROFIT MANAGEMENT: A GLOBAL SYSTEMATIC REVIEW

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ABSTRACT

Objectives: This study aims to examine the relationship between sustainability disclosure and earnings management within the framework of legitimacy theory, emphasizing the role of transparency and corporate social responsibility in ensuring ethical financial practices.

Research Design & Methods: This study uses the Systematic Literature Review (SLR) method, which includes the stages of planning, implementation, and reporting. In addition, a structured literature review was also applied to group the literature based on themes and historical developments. The inclusion criteria covered scientific articles on Sustainability Reporting (SR) and Earnings Management (EM) with quantitative or mixed methods approaches, published between 2019 and 2024. This period was chosen to capture the current dynamics of the implementation of GRI Standards and their influence on sustainability reporting practices and earnings management.

Findings: This analysis reveals that consistent sustainability disclosure strengthens corporate accountability and reduces the likelihood of earnings manipulation. However, the strength of this relationship varies across institutional and regulatory contexts. In developed countries, sustainability reports tend to be more substantive due to strong social and regulatory pressures, while in developing countries, such disclosures often serve a symbolic legitimization purpose.

Implications & Recommendations: Policymakers and regulators should encourage standardization and verification of sustainability reporting to enhance its credibility and alignment with ethical financial behavior. Companies are advised to integrate ESG principles into their governance structures to build genuine stakeholder legitimacy and trust.

Contribution & Value Added: This study contributes to the literature by providing a comprehensive synthesis of how sustainability disclosure functions as a strategic governance mechanism that restrains earnings management and promotes ethical financial reporting, particularly in diverse institutional environments.

Keywords: Sustainability Disclosure, Earnings Management, Environmental, Social, and Governance (ESG)

JEL codes: M41, G38, Q56
Article type: research paper

INTRODUCTION

Globally, the implementation of sustainability principles is increasingly becoming a major focus for various companies because it is considered capable of strengthening positive image, increasing customer loyalty, and creating sustainable competitive advantage (Agu et al., 2024). Various studies show that sustainability efforts, including the implementation of Corporate Social Responsibility (CSR), not only impact a company's reputation but also influence financial and strategic aspects such as management practices (Bacinello et al., 2021; Deshmukh & Tare, 2023). The sustainability approach is not limited to environmental management alone; it also includes social policies and good corporate governance, which can synergistically improve company performance, strengthen relationships with stakeholders, and support long-term value creation (Ketprapakorn & Kantabutra, 2019; Schuler et al., 2017). Sustainability disclosure can also impact a company's economic and social performance and reflect its social responsibility to stakeholders (Alsayegh et al., 2020).

The disclosure of sustainability information strategically enhances corporate transparency and accountability, as it can increase stakeholder trust while providing a more comprehensive picture of an organization's financial and non-financial performance. The findings of the study by Alodat et al., (2024) show that higher levels of sustainability disclosure are associated with a decrease in profit management practices, indicating a positive correlation between sustainability transparency and the quality of financial reports. This confirms that implementing and complying with stricter sustainability standards not only creates a good reputation for the company but also enhances the integrity, credibility, and reliability of information conveyed to the public and investors.

Currently, more and more companies are facing demands to present more comprehensive sustainability disclosures, both voluntarily and as a result of increasingly stringent regulatory requirements. The existence of policies such as the Corporate Sustainability Reporting Directive in the European Union and the rise of international sustainability reporting standards reflect the growing global push for corporate transparency and accountability. This trend confirms that information disclosure is not merely an administrative obligation, but also a strategic instrument that can create competitive advantage, enhance reputation, and strengthen the overall sustainability performance of a company (Hummel & Jobst, 2024).

In addition, companies often use profit management practices as a strategy to adjust financial reports to meet stakeholders' expectations or to achieve specific profits, both in the short and long term. However, various studies show that these practices can reduce the quality and credibility of financial reports, thereby potentially undermining transparency and investor confidence. Nevertheless, good corporate governance mechanisms, such as strict supervision by the board of directors, the existence of an independent audit committee, and the implementation of clear compliance policies, have been proven to reduce the opportunities and incentives for management to engage in financial statement manipulation (Kliestik et al., 2021; Man & Wong, 2013).

Previous studies have shown inconsistent results regarding the relationship between demand and earnings management practices. Several studies by García-Sánchez et al., (2019) and Posko et al., (2021) suggest that comprehensive diversity can serve as a governance instrument that promotes transparency, strengthens public oversight, and reduces management's tendency to manipulate earnings. However, other findings by Ningsih et al., (2023) and Ricapito (2024) suggest that the practice of spreading density is used symbolically to build legitimacy and conceal opportunistic management behavior, such as fabricating financial reports or engaging in hidden earnings management practices. These discrepancies highlight significant empirical ambiguity and inconsistencies regarding the true role of diversity in maintaining financial reporting integrity.

Recognizing the close relationship between sustainability disclosure and earnings management, companies can make more strategic decisions in managing both aspects to improve financial performance while meeting increasingly complex social and environmental demands (Zhang et al., 2021). This study aims to explore the extent to which the level of sustainability disclosure affects earnings management practices, thereby providing a deeper understanding of how companies use sustainability information both to improve financial performance and as an instrument of earnings management. The findings of this study are expected to be useful for academics, regulators, and practitioners by providing new insights into the strategic role of sustainability disclosure. This role is crucial for maintaining the integrity of financial reports, building reputation, and strengthening the competitiveness of companies amid ever-evolving business dynamics.

LITERATURE REVIEW

Corporate Sustainability Practices

Corporate Sustainability Practices are a series of strategies, policies, and initiatives designed to create a balance of sustainability in environmental, social, and economic aspects. Through these practices, companies operate ethically and responsibly by reducing negative impacts on the environment, supporting community welfare, and maintaining long-term competitiveness and business sustainability. This approach focuses not only on achieving financial gains but also on creating sustainable value for stakeholders such as employees, customers, communities, and investors.

The concept of corporate sustainability is built on three main pillars. The first pillar is environmental management, which includes reducing carbon emissions, conserving natural resources, improving energy efficiency, managing waste responsibly, and applying circular economy principles. The second pillar is social responsibility, which includes protecting workers' rights, developing local communities, improving occupational health and safety, and applying the principles of fairness and inclusiveness in the supply chain. The third pillar is economic performance, which is oriented not only towards profitability but also towards environmentally friendly business model innovation, sustainable investment, and the creation of added value for stakeholders. Each of these pillars aims to ensure that future generations continue to have access to adequate resources while enjoying a better quality of life (Pazienza et al., 2022).

Mariappanadar (2020) research shows that implementing corporate sustainability practices provides broad benefits. These practices not only enhance reputation and strengthen the company's image through green marketing strategies but also deepen relationships with stakeholders and drive improved financial and socio-economic performance. The implementation of sustainability practices helps companies build trust, loyalty, and closer collaboration with customers, employees, suppliers, and the surrounding community, thereby creating long-term sustainable value. One example is the implementation of sustainability-oriented Human Resource Management (HRM) practices. Sustainable HRM not only focuses on improving employee productivity and welfare, but also emphasizes ethical aspects, work-life balance, sustainable skills development, and the protection of workers' rights. This approach significantly strengthens the organization's relationship with stakeholders, which in turn can improve financial results, enhance reputation, and broaden social impact.

Sustainability practices essentially involve a comprehensive assessment process and prioritization of actions based on the availability of company resources, as each organization has different capacities and conditions for implementing aspects of sustainability (Goyal et al., 2015). This approach requires companies to strategically select programs that are most relevant, high-impact, and aligned with their internal capabilities. In addition to resource factors, effective corporate governance also plays a crucial role in ensuring the successful implementation of sustainability. A transparent, accountable, and adaptive governance structure helps strengthen the integration of sustainability policies into business strategies. Furthermore, pressure from activist investors and other external stakeholders is also an important catalyst in encouraging companies to implement broader and more in-depth sustainability practices, whether through demands for transparency, disclosure of environmental and social data, or expectations for environmentally friendly innovation (Gold & Taib, 2023).

Profit Management Concept

Profit management is a complex and controversial practice in the realm of finance and financial management. Essentially, this practice reflects the strategic efforts of company management to influence or regulate the presentation of financial reports for specific purposes, such as meeting performance targets, maintaining the company's image, or providing a positive perception of the company's financial condition. According to Gunny (2010), this practice is generally divided into two main approaches, namely accrual-based earnings management, which utilizes accounting policy flexibility, and real activities manipulation, which is carried out through company operational decisions, such as regulating sales, production costs, and investment expenditures. In other words, earnings management is not only related to accounting techniques, but also to operational strategies that are systematically designed to influence financial reporting results.

The motivations behind earnings management practices are diverse and not limited to a single factor. Capital market pressures, for example, encourage companies to maintain an image of financial stability in order to attract or retain investors. On the other hand, earnings management is also often carried out to reduce profit fluctuations so that they appear more consistent, as well as to meet or avoid certain regulatory requirements, including taxation interests that can have a significant impact on a company's cash flow (Strakova, 2020). This practice often arises due to information asymmetry between management and shareholders, giving managers an incentive to send certain signals about the company's prospects and financial health, even if those signals are manipulative or misleading (Callao et al., 2014).

In some situations, earnings management is often seen as a financial strategy that aims to maintain a positive image of the company, especially when facing pressures such as difficult financial conditions or during an initial public offering (IPO). This strategy can help companies appear more stable and attractive to investors and other stakeholders. However, if these practices are carried out opportunistically and excessively, they can actually have serious negative impacts, including a decline in investor confidence, weakened credibility of financial reports, and disruption of capital market integrity (Nurcahyono & Sinarasri, 2023). Therefore, contemporary accounting literature increasingly emphasizes the importance of implementing effective corporate governance mechanisms, enhancing financial statement transparency, and strengthening internal and external oversight systems to minimize the risks of harmful profit management practices.

Legitimacy Theory and Stakeholder Theory

Legitimacy theory and stakeholder theory are two of the most widely used theoretical frameworks for understanding corporate sustainability practices and corporate social responsibility (CSR) disclosure. Legitimacy theory views that a company's sustainability and reputation are largely determined by the extent to which its business activities are accepted by the wider community. Companies are considered to have a "social license to operate" that must be maintained through alignment with public values, norms, and expectations. In practice, CSR disclosure is used as a mechanism of legitimacy to demonstrate that companies operate ethically, transparently, and responsibly (Omran & Ramdhony, 2015). Some studies show a positive relationship between legitimacy and company performance; for example, a study in China found that a higher level of CSR disclosure had a significant impact on increased sales performance, as it could strengthen the company's positive image in the eyes of consumers and other stakeholders (Yu & Zheng, 2020). These findings confirm that public legitimacy is an important asset for business sustainability.

The stakeholder theory, on the other hand, focuses on the reciprocal relationship between companies and their stakeholders, such as customers, employees, local communities, investors, and the government. This theory emphasizes that companies are not only responsible to their shareholders, but also have a moral and strategic obligation to meet the expectations of the groups affected by their activities. In the context of CSR, disclosure of information to stakeholders is not merely a formality, but a means of accountability that strengthens trust and long-term relationships. In developing countries, this theory is increasingly relevant given the weak legal and regulatory pressure, so that encouragement from external stakeholders becomes a key factor in driving companies to adopt sustainable practices (Omran & Ramdhony, 2015). Studies in Vietnam support this view by showing that stakeholder pressure has a positive impact on corporate sustainability performance, confirming the importance of their involvement in promoting sustainable business models (Cuong et al., 2025).

Overall, these two theories provide complementary perspectives on how companies interact with their social environment. Legitimacy theory helps explain how companies maintain their image and reputation by complying with social norms, while stakeholder theory highlights how the involvement of various external parties can improve sustainability performance. The combination of these two theories provides important insights for researchers and practitioners in designing more effective, responsive, and long-term CSR strategies. By understanding these two frameworks, companies can integrate sustainability not only as a moral obligation but also as a business strategy that provides added value, strengthens competitiveness, and supports economic, social, and environmental sustainability simultaneously.

METHODS

This study used Systematic Literature Review (SLR) as its main methodology, referring to the guidelines compiled by Kitchenham et al., (2009) which divide the SLR process into three important stages: planning the review, conducting the review, and reporting the review. At the planning stage, the review requirements were identified, research questions formulated, and a review protocol developed covering inclusion and exclusion criteria, data sources, and search strategies. The next stage, implementation, covered the process of finding relevant studies, selecting studies based on criteria, assessing study quality, extracting data, and synthesizing the findings. The final stage, reporting, aims to present the review results transparently and comprehensively including the methodology used—so that the review can be replicated by other researchers.

Moreover, this study adopts a literature review approach that is structured, logical, and systematic (Meutia et al., 2022). This means that, in addition to following the official SLR steps, the literature review organizes the literature based on themes, theoretical frameworks, and historical developments, so that it is able to show how previous studies have contributed, where there are research gaps, and how the latest evidence reinforces older findings.

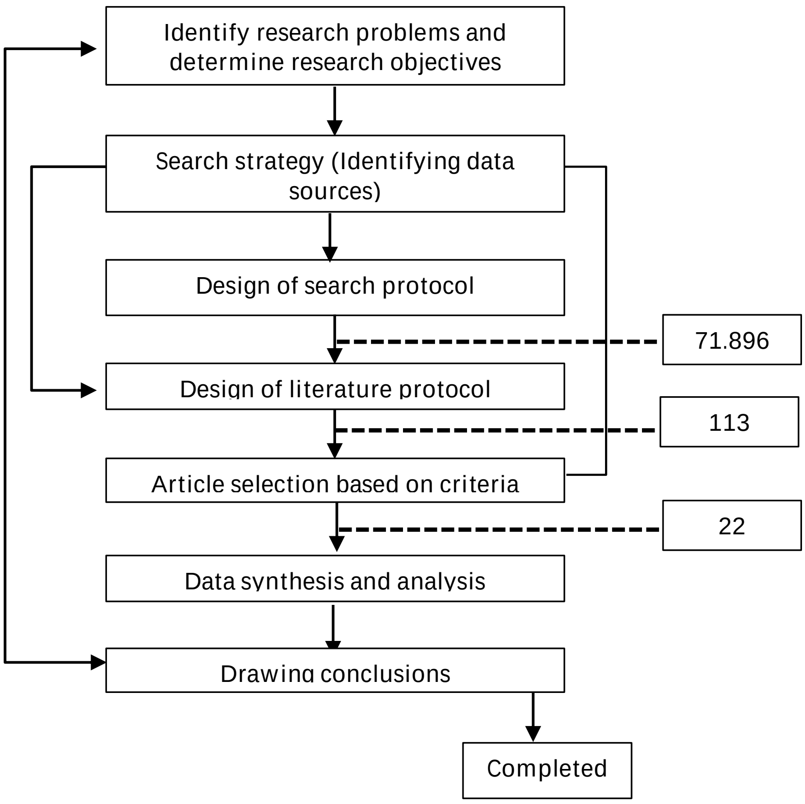

Figure 1. SLR Protocol Flowchart

The inclusion criteria for this study include scientific articles that specifically discuss the dynamics and trends of research on Sustainability Reporting (SR) and Earnings Management (EM) using quantitative methodological approaches or mixed methods. Studies that only apply a purely qualitative approach are not included in the scope of this study. The articles reviewed are publications in scientific journals, regardless of the reputation or indexing of the journal (both national and international), as long as they were published between 2019 and 2024. This period was chosen because it reflects an important phase in the development of the GRI Standards, which, since their introduction in 2016, have undergone strengthening and adaptation in sustainability reporting practices across various sectors. By focusing on the 2019–2024 period, this study aims to capture the latest picture of the adoption of more modular, flexible, and transparent reporting standards, while also exploring how these changes affect profit management practices and sustainability disclosure at the global and regional levels. The selected studies were analyzed and synthesized thematically to identify key patterns, theoretical perspectives, and emerging research gaps in the relationship between sustainability reporting and earnings management

RESULT

Distribution of Selected Journals

In this study, articles were systematically searched through several credible and reputable databases, namely Emerald, Elsevier, MDPI, ProQuest, and Taylor & Francis. These databases were selected to ensure broad international literature coverage, including articles relevant to accounting, management, and sustainability. In addition, Google Scholar was used as a supporting database to complement the search results, especially to capture articles from national and international journals that are not always indexed in the main databases.

The article search strategy was carried out by utilizing English keywords that had been specifically formulated in accordance with the research focus. These keywords included the terms "sustainability," "sustainability disclosure," "sustainability reporting," "environmental disclosure," and "corporate reporting," which were then combined with the term "earnings management." The selection of this keyword combination aims to reach literature that comprehensively discusses corporate sustainability practices, both in terms of reporting, information quality, and sustainability performance and engagement, in relation to earnings management practices. Thus, the search results are expected to identify relevant and in-depth articles related to the relationship between sustainability and corporate accounting behavior.

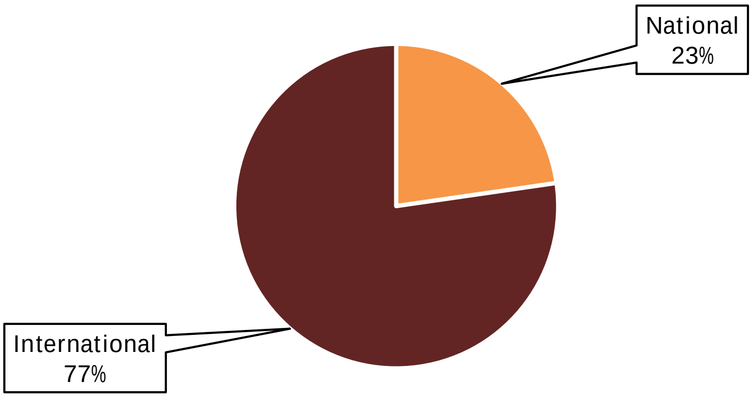

Figure 2. Journal Distribution

The diagram illustrates the distribution of 17 journals that were the sources of articles in this study, based on indexing categories. From the search results, most of the journals obtained were reputable international journals indexed by Scopus and Web of Science, with 13 journals (76%) producing 17 articles. This dominance is in line with the main databases used, such as Emerald, Elsevier, MDPI, ProQuest, and Taylor & Francis, which do provide more international publications. Meanwhile, there were 4 national journals (24%) with a total of 5 articles indexed by Sinta, which were obtained through additional searches using Google Scholar. These findings indicate that research related to the disclosure of corporate sustainability practices and earnings management is more frequently published in international journals, although the contribution of national journals remains important in providing local and contextual perspectives.

Table 1. List of Selected Journals

No.	Journal Name	Classification	Total Articles
	Jurnal Internasional		
1	Journal of Cleaner Production	Scopus Q1, WoS SCIE	2
2	Sustainability (MDPI)	Scopus Q1, DOAJ	2
3	Risks (MDPI)	Scopus Q2, DOAJ	1
4	International Journal of Finance & Economics (Wiley)	Scopus Q2, WoS	1
5	Business Strategy and the Environment (Wiley)	Scopus Q1	2
6	Corporate Social Responsibility & Environmental Management (Wiley)	Scopus Q1	2
7	Accounting Research Journal (Emerald)	Scopus Q2	1
8	Sustainability Accounting, Management and Policy Journal (Emerald)	Scopus Q1	1
9	Journal of Business Ethics (Springer)	Scopus Q1, WoS	1
10	Journal of Business Research (Elsevier)	Scopus Q1	1
11	Journal of Corporate Finance (Elsevier)	Scopus Q1	1
12	Social and Environmental Accountability Journal (Taylor & Francis)	Scopus Q3	1
13	Journal of Asia Business Studies (Emerald)	Scopus Q2	1
	Jurnal Nasional		
14	Jurnal Riset Akuntansi Terpadu	Sinta 4	1
15	STATERA: Jurnal Akuntansi dan Keuangan	Sinta 4	1
16	Jurnal Ekonomi (SEAN Institute)	Sinta 4	1
17	Jurnal Akuntansi dan Keuangan Indonesia	Sinta 2	2
	Total Articles		22

Source: Reviewed data

Geographical Distribution

The geographic distribution of scientific publications discussing the disclosure of sustainability practices as a profit management strategy reflects the level of academic attention and priority given to this issue in a global context. Distribution mapping analysis not only quantifies the number of publications per country but also provides a critical perspective on the differences in epistemological and methodological approaches underlying research in various regions. Factors such as academic tradition, access to reputable international journals, regulatory pressure related to sustainability, and levels of socio-economic awareness are significant determinants that influence publication intensity. Countries with established research ecosystems tend to produce more substantial scientific contributions, while countries with limited resources or different development priorities exhibit relatively low publication rates. Furthermore, geographical distribution analysis serves as a strategic tool for identifying knowledge concentrations, exploring cross-country research gaps, and directing a more inclusive and collaborative future research agenda. Thus, mapping the distribution of scientific publications not only reveals the academic dominance of a region but also opens up opportunities to strengthen global integration in the development of sustainability practices and profit management strategies.

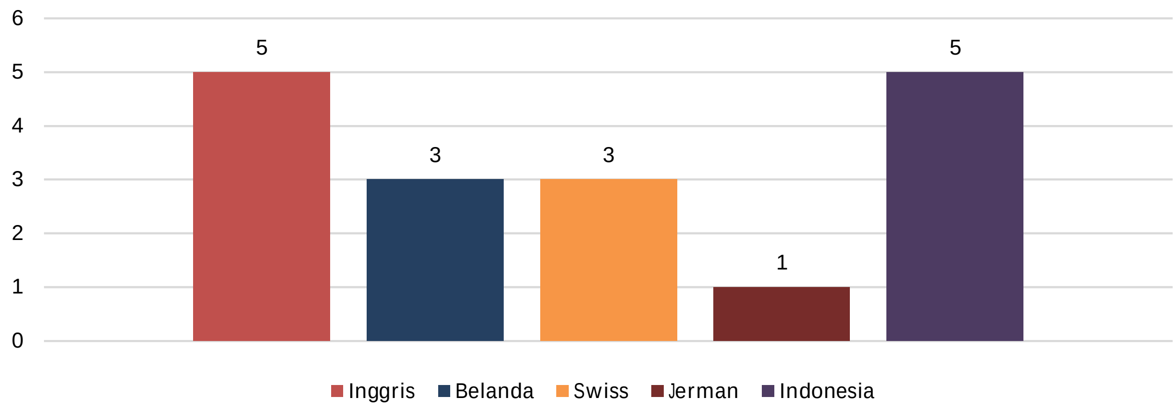

Figure 3. Distribution of scientific publications by journal publisher country

Based on the distribution of articles by journal publisher country, the highest number of publications came from the United Kingdom and Indonesia, each with five articles (31.3%). Next, the Netherlands and Switzerland contributed three articles each (18.8%), while Germany ranked lowest with one article (6.3%). These results show that the United Kingdom and Indonesia play a dominant role in publications. The United Kingdom is supported by a strong academic tradition, broad access to reputable international journals, and high regulation and public attention to sustainability issues. Indonesia's significant contribution reflects the increasing activity of national journals and academic concern for sustainability practices. Meanwhile, the Netherlands and Switzerland made relatively stable contributions, while Germany remained low, indicating a potential research gap that could be explored further. This distribution analysis not only identifies knowledge concentrations but also opens up opportunities for international collaboration and more equitable cross-border research development. The figure above illustrates the geographical distribution of scientific publications on the disclosure of sustainability practices as a profit management strategy, highlighting the dominance of several countries in the production of literature on this topic.

Key Findings

Based on the analysis of 22 selected articles, it appears that the relationship between sustainability disclosure and earnings management practices exhibits quite diverse patterns. These articles utilize various methodological approaches, ranging from quantitative analysis based on panel data regression to qualitative approaches through case studies, thus providing a comprehensive picture of this issue. The variety of methods not only enriches the perspective but also allows for comparisons in terms of accuracy, context, and depth of findings. In general, existing studies show a tendency for sustainability disclosure to function as a control mechanism for profit management practices. This occurs because transparent disclosure increases external oversight, strengthens pressure from stakeholders, and reduces the space for companies to manipulate financial reports.

However, not all studies have reached the same conclusion. Some articles have found indications that sustainability practices can also be used as an impression management strategy, namely by highlighting the company's sustainability image to cover up actual profit management practices. Differences in national contexts are also an important factor influencing research results. Studies in developing countries emphasize the urgency of regulation, law enforcement, and governance quality in enhancing the effectiveness of sustainability disclosure. Meanwhile, studies in developed countries tend to highlight issues such as report complexity, the quality of information disclosed, and the role of moderating variables such as ownership structure, board oversight mechanisms, and capital market influence. Thus, it can be concluded that the effectiveness of sustainability disclosure on earnings management practices is not universal, but is influenced by the regulatory context, governance, and market conditions in each country.

Table 2. Summary of Research Articles on Sustainability Disclosure and Earnings Management (2019–2024)

No.	Reference Source	Research Method	Variable	Findings
		International Journal		
1.	Environmental, Social, and Governance Disclosure's Impacts on Earnings Management: Family Versus Non-family Firms Borralho et al., (2022)	Quantitative study, panel data 2009–2018, regression	a. Independent: Environmental, Social, Governance Disclosure b. Dependent: Earnings Management c. Moderator: Family vs Non-family firms	a. Environmental disclosure → increases earnings management b. Social & Governance disclosure → reduces earnings management c. ESG impact is stronger on family businesses
2.	ESG Disclosure and Corporate Financial Irregularities – Evidence from Chinese Listed Firms Yuan et al., (2022)	Empirical, quantitative, using data from public companies in China; analyzing ESG disclosure indices and internal & external oversight conditions	a. Independent variable: Level of ESG disclosure b. Dependent variable: Financial irregularities c. Moderating variables: Intensity of internal and external oversight, quality of formal regulation, legal and marketization index, low-carbon pilot policy d. Mechanism: "Accounting channel" (earnings management)	a. ESG disclosure reduces the risk of financial irregularities. b. The inhibitory effect is stronger when internal and external oversight is high. c. A good formal regulatory environment reinforces this effect. d. ESG disclosure increases transparency and reduces information asymmetry through earnings management control.
3.	Sustainability Commitment Versus Earnings Management Practices: Saudi Insights Al Barrak and Kouaib (2024)	Empirical, quantitative, using data from public companies in Saudi Arabia; analyzing sustainability commitments and earnings management practices	a. Independent variable: Sustainability commitment b. Dependent variable: Earnings management c. Control variables: Company characteristics (size, leverage, growth, etc.)	a. Commitment to sustainability is negatively related to earnings management practices. b. Companies with a high commitment to sustainability are less likely to engage in earnings manipulation. c. The results confirm the role of sustainability as a governance mechanism to increase transparency and reduce opportunistic behavior.

No.	Reference Source	Research Method	Variable	Findings
4.	Sustainability Engagement and Earnings Management: The Italian Context Grimaldi et al., (2020)	Empirical, quantitative, using Italian company data; focuses on the relationship between sustainability engagement and earnings management practices	a. Independent variable: Sustainability engagement (company involvement in sustainability) b. Dependent variable: Earnings management (profit management practices) c. Control variables: Company characteristics (size, leverage, profitability, etc.)	a. Sustainability engagement is negatively related to earnings management. b. Companies that are more active in sustainability practices tend to be more transparent and reduce earnings manipulation. c. Sustainability engagement is seen as a governance mechanism that strengthens investor confidence.
5.	Earnings Management and Sustainability Reporting Disclosure: Some Insights from Indonesia Ningsih et al., (2023)	Quantitative, fixed effect regression with standard error estimates; data from 408 firm-year observations of public companies in Indonesia (2010–2021)	a. Independent variable: Earnings management b. Dependent variable: Sustainability reporting disclosure c. Control variable: Other company factors (not specified in the abstract)	Companies that engage in earnings management tend to demonstrate higher quality sustainability report disclosures. The study provides empirical evidence that earnings management is positively related to sustainability reporting practices in Indonesia.
6.	Audit Report Information Improvement and Earnings Management Sai et al., (2024)	Quasi-experiment with data on the implementation of new audit standards	a. Independent variable: Communication of Key Audit Matters (KAMs) in audit reports b. Dependent variable: Earnings management (accrual & real) c. Moderating variable: Dependence on external financing, level of marketization	a. KAM communication increases professional skepticism among auditors and suppresses accrual-based earnings management. b. The effect is stronger on companies with high dependence on external financing and low levels of marketization. c. Audit report reform plays a role in complementing corporate governance mechanisms.
7.	The Impact of Sustainability (Environmental, Social, and Governance) Disclosure and Board Diversity on Firm Value: The	Quantitative – Panel data regression analysis of companies listed on the Pakistan Stock	a. Independenden: Pengungkapan keberlanjutan (ESG), Keberagaman dewan (gender, pendidikan, pengalaman)	a. Sustainability disclosure and board diversity have a positive effect on company value. b. This effect is stronger in industries with

No.	Reference Source	Research Method	Variable	Findings
	Moderating Role of Industry Sensitivity Qureshi et al., (2020)	Exchange (2012–2017)	b. Dependen: Nilai perusahaan (Tobin's Q). c. Moderator: Sensitivitas industri	high environmental and social sensitivity
8.	Carbon Disclosure and Financial Performance: UK Environmental Policy Alsaifi et al., (2020)	Quantitative, empirical study of FTSE 350 companies (2007–2015), using the Resource-Based View framework and data from the Carbon Disclosure Project (CDP)	a. Independent variable: level of carbon disclosure b. Dependent variable: financial performance (constructed from a comprehensive financial performance index) c. Control: company characteristics (size, sector, etc.)	Strong evidence has been found that voluntary carbon disclosure is positively associated with corporate financial performance. This suggests that carbon disclosure can be a strategy that enhances value for stakeholders and regulators
9.	What Environmental Social Responsibility Practices do Large Companies Manage for Sustainable Development? Murillo-Avalos et al., (2021)	Quantitative method, survey of large companies in Mexico; statistical analysis to test the relationship between environmental, social responsibility practices and sustainability	a. Variabel independen: praktik tanggung jawab sosial lingkungan (pengelolaan limbah, efisiensi energi, perlindungan keanekaragaman hayati, penggunaan sumber daya berkelanjutan, dll.) b. Variabel dependen: kontribusi terhadap pembangunan berkelanjutan	Large companies manage environmental practices such as energy efficiency, waste management, and resource conservation. The results show that these practices contribute significantly to sustainable development goals and enhance the social legitimacy of companies
10.	Sustainability Reporting and Earnings Management of Listed Non-Financial Firms in Nigeria Olagunju et al., (2023)	Causal research design; sample of 22 listed manufacturing companies; period 2015–2021; secondary data from annual reports & sustainability reports; analysis using descriptive statistics & panel regression	a. Independent: Sustainability Reporting (indeks social, economic, environmental disclosures) b. Dependen: Earnings Management (discretionary accruals, real earnings)	Sustainability reporting has a significant negative effect on earnings management. Companies with low sustainability disclosure are more likely to engage in earnings management practices
11.	The Relationship between Corporate Sustainability Performance and Earnings Management: Evidence from	Panel data analysis of 410 non-financial companies in developing East Asia (2016–2020) using Thomson Reuters Eikon	a. Independent variable: Corporate Sustainability Performance (CSP) based on the triple bottom line (economic, social, environmental)	CSP hurts earnings management (both real activities manipulation and discretionary accruals). Companies with high sustainability performance tend to be

No.	Reference Source	Research Method	Variable	Findings
	Emerging East Asian Economies Nguyen (2024)	data. Triple bottom line approach to CSP; earnings management detection model: real activities manipulation & discretionary accruals	b. Dependent variable: Earnings management (manipulation of real activities & discretionary accruals)	more transparent and do not manipulate profits
12.	CSR as an Impression-Management Strategy: The Joint Effect of Disclosure Tone Management and Earnings Management Hamza et al., (2023)	Quantitative, sample of 616 firm-year observations of companies listed in France (SBF 120) over 8 years; multivariate analysis; two-stage least squares (2SLS) to address endogeneity	a. CSR (Corporate Social Responsibility) b. Earnings Management (EM) c. Disclosure Tone Management (TM)	a. CSR is significantly positively influenced by earnings management. b. CSR is negatively correlated with disclosure tone management. c. No significant combined effect of EM and TM on CSR was found.
13.	Are the Quantity and Quality of Sustainability Disclosures Associated with the Innate and Discretionary Earnings Quality? Rezaee and Tuo, (2019)	Quantitative – Regression analysis using a sample of public companies in the US (2007–2014)	a. Independent: Quantity & quality of sustainability disclosure b. Dependent: Profit quality (innate & discretionary) c. Control: size, leverage, profitability, etc	a. Disclosure (quantity & quality) → better inherent profit quality. b. Disclosure quality → discretionary profit manipulation. c. Good disclosure improves financial statement transparency
14.	ESG Rating Uncertainty and Corporate Financial Misconduct Zhou and Lei (2025)	Quantitative analysis of public company data in China using the fraud triangle theory and mediation analysis approaches	a. ESG Rating Uncertainty (independent variable) b. Corporate Financial Misconduct (dependent variable) c. Mediation: financial constraints, institutional investor monitoring d. Moderation: high pollution industry, competition intensity, governance board, legal system, Confucian culture	ESG rating uncertainty increases the risk of corporate financial misconduct. This effect is exacerbated in highly polluting and competitive industries, but can be mitigated by strong governance, legal systems, and Confucian culture
15.	From Reporting to Responsibility: Investigating the Influence of Sustainability Disclosure on	Systematic Literature Review (145 studies from 2008–2023, Scopus database,	a. Sustainability disclosure (including carbon disclosure & gender diversity)	a. Sustainability disclosure is associated with various forms of earnings management.

No.	Reference Source	Research Method	Variable	Findings
	Earnings Management Ali et al., (2024)	strict inclusion criteria)	b. Profit management (real, accrual, discretionary accrual) c. Internal factors: ownership structure, corporate governance d. External factors: transparency, information asymmetry, corporate reputation	b. Carbon disclosure and gender diversity have a significant influence on earnings management practices. c. Sustainability tends to limit earnings management through increased transparency and reputation. d. Provides a new theoretical framework for stakeholders and managerial practices
16.	Does Corporate Sustainability Disclosure Mitigate Earnings Management: Empirical Evidence from Jordan Alodat et al., (2024)	Quantitative (panel analysis). Sample: 66 non-financial companies listed on the Amman Stock Exchange (ASE), 2017–2020 period	a. Independent variable: Sustainability disclosure (sustainability disclosure index) b. Dependent variable: Earnings management (measured using two accounting/accrual models) c. Controls: general company variables (not all controls are detailed in the summary)	There is a negative relationship between the level of sustainability disclosure and earnings management practices—meaning that higher sustainability disclosure is associated with lower earnings management. The authors conclude that sustainability disclosure improves ethical behavior and the reliability of Jordanian companies' financial reports
17.	Corporate Social Responsibility (CSR) in Asian Firms: A Strategic Choice Perspective of Ethics and Compliance Management Gaur et al., (2019)	Quantitative study based on secondary data (panel). Using a sample of 1,243 companies from 12 Asian countries during the period 2005–2014. Panel regression analysis	a. Independent variables: Ethics management, compliance management b. Dependent variables: CSR engagement (CSR disclosure and practices) c. Controls: company size, leverage, profitability, etc	The results show that management ethics are positively related to CSR involvement, while compliance alone is not enough to encourage CSR. Companies in Asia tend to view CSR as a strategic choice influenced by the integration of ethics and compliance systems.
		National Journal		
18.	Intellectual Capital, Corporate Social Responsibility, and Firm Value in Indonesia's Banking Industries LumbanGaol et al., (2021)	Quantitative, regression	a. Independent: Intellectual Capital, CSR disclosure; b. Dependent: Firm Value; Control variable: earnings management	CSR disclosure has a positive effect on company value. This study suggests that disclosure quality is associated with low profit management practices in the banking industry

No.	Reference Source	Research Method	Variable	Findings
19.	Pengaruh Real Earnings Management dan Corporate Governance Terhadap Corporate Environmental Disclosure Pratiwi and Kurniawan (2020)	Quantitative, regression	a. Independent: Real Earnings Management, Corporate Governance b. Dependent: Corporate Environmental Disclosure	Real earnings management affects corporate environmental disclosure, indicating that environmental disclosure practices can be used as a strategy to cover up earnings management
20.	Environmental, Social, and Governance, and Earnings Management Panjaitan and Suranta (2024)	Quantitative (panel regression)	a. Independent: Skor ESG b. Dependent: Earnings Management	Companies with higher ESG scores tend to have lower earnings management practices; ESG acts as a monitoring mechanism
21.	Value Relevance of Sustainability Report: Evidence from Indonesia Endiana and Suryandari (2021)	Quantitative, regression	a. Independent: Sustainability Report Disclosure (GRI Index) b. Dependent: Company Value	The disclosure of sustainability reports has a significant positive impact on company value, demonstrating their relevance in the eyes of investors.
22.	Is Mandatory Sustainability Report Still Beneficial Rudyanto (2021)	Literature review / conceptual analysis	No quantitative variables; focus on normative analysis	Although sustainability reporting is mandatory, it still has benefits, particularly in improving transparency and accountability

From the summary in the table, it is evident that research on sustainability disclosure and earnings management still shows mixed results, although the dominant pattern indicates that sustainability can suppress earnings management practices. These differences in results are generally influenced by methodological factors, such as the type of variables, measurement indicators, and research period, as well as contextual factors, including regulations, level of supervision, and corporate governance structure. In general, sustainability disclosure plays a strategic role in shaping financial management behavior. Higher levels of disclosure—both in terms of quantity and quality—can suppress profit manipulation practices by increasing transparency, accountability, and trust from stakeholders. In addition, sustainability disclosure reflects a company's ethical and governance commitments. It also confirms the need for more in-depth research, particularly regarding the role of moderating variables and institutional conditions that can strengthen or weaken the relationship between sustainability and profit management practices.

DISCUSSION

Sustainability disclosure plays a significant role in controlling profit management practices because it aligns with the principles of legitimacy theory and stakeholder theory. Companies that consistently implement sustainability disclosure usually strive to maintain their image and public trust through transparency and social responsibility. The implementation of this practice encourages ethical behavior in financial reporting, thereby limiting the scope for earnings manipulation (Alodat et al., 2024). Sustainability disclosures covering environmental, social, and governance (ESG) aspects play an important role in strengthening the integrity of corporate financial reports. Through transparent and sustainable reporting practices, companies can improve the quality of profits that truly reflect real economic performance, while reducing the tendency for managers to manipulate profits for certain interests (Rezaee & Tuo, 2019). Commitment to consistent sustainability reporting also helps improve the quality of information disclosed to the public, thereby reducing uncertainty and future earnings risk. Furthermore, this openness serves as an effective oversight mechanism in reducing agency problems arising from information gaps between management and shareholders, as well as strengthening investor confidence in corporate governance and ethical responsibility (Arif et al., 2024).

Sustainability reports serve as strategic corporate governance instruments because they balance economic, social, and environmental interests within the framework of corporate decision-making. Through sustainability disclosure, companies not only demonstrate their commitment to transparency and social responsibility but also strengthen their legitimacy and credibility among stakeholders. One important factor that influences the effectiveness of sustainability reports is gender diversity on the board of directors, which has been shown to enrich strategic perspectives and improve the quality of governance. The presence of women in strategic positions is often associated with increased sensitivity to ethical, environmental, and social issues, thereby strengthening the company's orientation towards authentic and sustainable business practices. In the context of corporate governance, female directors tend to apply a more participatory, inclusive, and transparent leadership style, which directly improves the integrity of the reporting process and encourages greater accountability. Empirical studies, such as those conducted by Hossain et al., (2025) in Malaysia, show that gender diversity on boards of directors can moderate the relationship between sustainability disclosure and earnings management practices. Boards with diverse gender composition are more effective in performing their oversight and internal control functions, thereby reducing the possibility of using sustainability disclosure as a means to cover up opportunistic managerial practices.

The institutional context, governance systems, and corporate culture of a country greatly influence the relationship between sustainability disclosure and earnings management practices. In developed countries with strict reporting regulations and high levels of governance, such as in Europe, sustainability disclosure generally has more substantive meaning rather than being merely symbolic. Companies in this region tend to use sustainability reporting as a means to strengthen transparency, increase stakeholder trust, and suppress opportunistic behavior in financial reporting. Research shows that the effectiveness of sustainability disclosure in curbing earnings management practices depends not only on the existence of regulations but also on the quality of corporate governance, which includes the size and independence of the board of directors, the proportion of institutional ownership, and strong internal control mechanisms (Dimitropoulos, 2011).

Conversely, in developing countries, sustainability disclosure often does not fully reflect companies' ethical commitments, but rather serves as a means of image building to gain social legitimacy and attract investors. Limited binding regulations, weak oversight systems, and cultural factors that emphasize symbolism over substance make sustainability reporting practices vulnerable to exploitation as a strategy to conceal profit management practices (Gerged et al., 2023). In this context, although some studies show a negative relationship between environmental disclosure and profit manipulation practices, the results remain varied due to the inconsistent effectiveness of governance structures. As stated by Velayutham (2018), weaknesses in governance mechanisms can produce a double effect: on one hand, they can reduce profit manipulation practices through increased transparency; on the other hand, they can actually reinforce opportunistic practices if governance is not implemented properly.

The integrity of sustainability disclosure encompasses not only the amount of information provided (quantity) but also its relevance, accuracy, and transparency (quality), which directly influence perceptions of the ethics and credibility of corporate reporting. When companies present sustainability reports with rich, data-driven content and honest explanations of their environmental, social, and governance (ESG) performance, it can strengthen the trust of investors and other stakeholders, while sending a positive signal that management is committed to responsible business practices. High-quality disclosure enables users of financial statements to more accurately assess a company's risks and prospects, thereby encouraging an increase in innate earnings quality, which is profit generated from actual economic activities without manipulative intervention. Conversely, superficial, inconsistent, or merely formal disclosures to meet regulatory requirements may indicate weak corporate integrity and often correlate with high levels of discretionary earnings management. In this context, as emphasized by Rezaee and Tuo (2019), the quality of sustainability disclosure reflects the extent to which companies apply the principles of transparency and accountability in their financial and non-financial reporting.

CONCLUSION

The connection between sustainability disclosure and earnings management practices reflects the application of legitimacy theory principles that emphasize the importance of transparency and social responsibility as a basis for maintaining public trust. Sustainability disclosure, which covers environmental, social, and governance (ESG) dimensions, not only serves as a means of external communication to gain legitimacy from stakeholders, but also as an internal control mechanism that can strengthen the integrity of financial reporting and suppress profit manipulation practices. In this context, companies with a high commitment to sustainability practices tend to exhibit stronger ethical behavior and accountability, while companies that are only oriented towards symbolic legitimacy have the potential to use ESG reporting as a mere image-building tool. The strength of the relationship between sustainability disclosure and earnings management is also greatly influenced by institutional factors, such as regulatory systems, governance culture, and social pressures that differ in each country, where sustainability reporting in developed countries is generally more substantive, while in developing countries it is often still a formality. Theoretically, these findings enrich legitimacy theory and stakeholder theory by showing that the quality of disclosure, as measured by the relevance, accuracy, and clarity of information, is an important indicator in assessing the extent to which ESG reporting truly reflects organizational integrity. Therefore, future research needs to expand the analysis of the mediating or moderating role of institutional, regulatory, and cultural governance factors in influencing the effectiveness of sustainability disclosure on the control of earnings management practices, while also examining how the substantive quality of ESG reporting can strengthen the long-term sustainability of organizational legitimacy.

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