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Sustainability Reporting and Earnings Management: Between Transparency and Legitimacy - A Systematic Literature Review

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ABSTRACT

This research investigates the connection between sustainability reporting and earnings management via a systematic literature review of global studies released from 2019 to 2025. The study seeks to examine the role of sustainability disclosure in balancing transparency and legitimacy in corporate reporting. Employing a qualitative descriptive method, twenty articles indexed in Scopus were analyzed to uncover theoretical patterns and empirical trends across different nations and sectors. The results indicate that superior sustainability reporting and external verification enhance corporate transparency and limit earnings manipulation, aligning with stakeholder and signaling theories. Nonetheless, data from developing economies shows that sustainability reporting is frequently utilized symbolically to uphold legitimacy or conceal opportunistic actions, as clarified by legitimacy and institutional theories. These varied outcomes illustrate that the connection between ESG and earnings management is influenced by the context, including the robustness of governance, regulatory enforcement, and the motives of management. The research underscores the twofold aspect of sustainability reporting—serving either as a true accountability tool or a legitimacy cover—and stresses the necessity for standardized frameworks, trustworthy assurance, and ethical governance to guarantee that sustainability communication demonstrates real rather than merely symbolic transparency.

INTRODUCTION

The global corporate environment has experienced a significant transformation, with sustainability emerging as a key focus in various sectors. By 2020, approximately 80% of global companies had adopted sustainability reporting, indicating a significant rise compared to earlier years (Gurvitš-Suits & Sidorova, 2022). This transition has been driven by increasing public and regulatory pressure and strengthened by global agreements such as the Paris Agreement and the Kunming-Montreal Global Biodiversity Framework (Sopp & Bunzel, 2024). As a result, sustainability reporting has become a key communication instrument that improves corporate transparency and accountability in a marketplace that is increasingly aware of environmental and social issues.

The increasing significance of sustainability reporting indicates a shift in stakeholder expectations and the creation of corporate value. Traditional financial reports, primarily concentrating on economics results, often overlook environmental, social, and governance (ESG) aspects that are essential to long-term success (Nwangele, 2025). Integrating financial and sustainability performance into a single framework offers a more complete picture of a company's risks, impacts, and value-generation strategies (Nwangele, 2025). This integration helps inform the public, enhancing legitimacy, and directing companies toward genuine sustainability and long-term viability (Ahmad et al., 2024).

However, despite this global push for transparency, earnings management (EM) continues to threaten the credibility of corporate reporting. EM refers to the intentional manipulation of accounting figures within permissible guidelines to achieve particular objectives (Santos-Jaén et al., 2021). These discretionary practices can distort or flatten earnings, leading to a deceptive view of financial performance and potentially misleading investors and other stakeholders (Bui, 2024). If unchecked, EM diminishes investor trust and weakens the principles of good corporate governance (Bui, 2024; Santos-Jaén et al., 2021).

The relationship between sustainability reporting and EM reveals a complex and occasionally conflicting dynamic. While sustainability disclosures are intended to encourage ethical behavior and transparency, some companies might strategically use them to conceal earnings manipulation or to enhance their legitimacy (Khelil-Rhouma & Hamed-Sidhom, 2021). Sustainability reports can therefore serve both as a means of genuine accountability and as an impression-management tool (Meqbel et al., 2024). The difficulty is in identifying genuine sustainability practices versus those mainly aimed at influencing stakeholder views or distracting from financial discrepancies (Ningsih et al., 2023).

Integrating ESG with financial reporting also presents significant difficulties. The lack of universally standardized frameworks makes it difficult to ensure data consistency and comparability between companies across regions and sectors (Du Toit, 2024; Nwangele, 2025). Additionally, fragmented and rapidly evolving regulations make it difficult to maintain uniform disclosures practices (Papafloratos & Pantazi, 2025). The subjective characteristics of non-financial indicators such as social impact or governance quality provide allows managerial discretion that can be utilized for earnings management purposes (Tohang et al., 2024). These issues highlight the persistence effort needed to secure transparent, comparable, and reliable sustainability disclosures.

Theoretically, legitimacy theory provides a valuable perspective to comprehend the relationship between sustainability reporting and EM. Companies frequently participate in sustainability reporting not just due to ethical conviction but to acquire or maintain social legitimacy (Meqbel et al., 2024). This legitimacy motive may affect the range and tone of disclosures, occasionally leading to a disparity between reported performance and actual practices (Yasar & Yalçın, 2023). Therefore, the quest for transparency needs to be balanced with the strategic reasons that influence what is disclosed particularly when earnings management is suspected or common.

In the last thirty years, the study of sustainability reporting has shifted from a narrow emphasis on environmental disclosure to include wider ESG aspects (Du Toit, 2024). Researchers have explored its factors and implications through frameworks such as legitimacy, agency, and stakeholder theory (Yasar & Yalçın, 2023). Initial research emphasized the significance of information technology in facilitating sustainability disclosure systems (Pandey et al., 2023), establishing the foundation for current intricate conversation regarding corporate social responsibility.

Recent studies increasingly exploring the connection between sustainability reporting and earnings management (Jia & Li, 2022; Rezaee & Tuo, 2019). Empirical findings are inconsistent: while some studies find that stronger ESG disclosure enhances earnings quality, other studies reveal that it can coexist with earnings manipulation (Ningsih et al., 2023; Rezaee & Tuo, 2019). These contradictions imply that the relationship between ESG transparency and financial integrity is largely influenced by context, governance, and factors specific to the firm (Akintoye & Kassim, 2022).

Despite significant progress, substantial research gaps remain. The lack of standardized disclosure frameworks limits data comparability, and the prevalence of quantitative methods constrains the comprehension of managerial intent (Alodat et al.,

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2024; Du Toit, 2024). Additionally, few studies differentiates between accrual-based and real EM, although these approaches might have varying implications for sustainability disclosure (Alodat et al., 2024). There is also limited exploration of how internal governances such as board composition or audit committees affects this relationship (Santos-Jaén et al., 2021). Finally, much of the evidence comes from developed markets, highlighting the need for cross-cultural research to improve the generalizability of results (Rahi et al., 2022).

Accordingly, this systematic literature reviews consolidates and assesses previous study on the convergence of sustainability reporting and earnings management. It seeks to map current evidence, highlight emerging patterns, and clarify theoretical and practical tensions between transparency and legitimacy. The findings are expected to enhance the comprehension of legitimacy, agency, and stakeholder theories within this framework, while providing guidance for regulators, corporations, and investors on fostering authentic sustainability reporting and determining opportunistic financial practices.

LITERATURE REVIEW

Sustainability Reporting

Sustainability reporting has significantly progressed, shifting from a limited emphasis on environmental disclosures to a more comprehensive incorporation of environmental, social, and governance (ESG) elements influenced by public demand and global initiatives like the Paris Agreement and the Kunming-Montreal Global Biodiversity Framework (Du Toit, 2024; Sopp & Bunzel, 2024). Its main goals are to improve corporate transparency and accountability, bolster stakeholder confidence, and aid in long-term value generation and financial results (Chouhan et al., 2021; Du Toit, 2024). Nonetheless, the lack of cohesive global standards persists in generating inconsistencies in measurement, interpretation, and comparability, putting sustainability reporting at risk of symbolic disclosure and greenwashing (Makarenko et al., 2023). These difficulties emphasize the continuous effort to obtain trustworthy, comparable, and useful sustainability information for decision-making across various sectors and regions.

Regulatory convergence has become a key focus, demonstrated by efforts like the Corporate Sustainability Reporting Directive (CSRD), European Sustainability Reporting Standards (ESRS), and the International Sustainability Standards Board (ISSB), which seek to standardize disclosure practices and enhance ESG quality (Abhayawansa et al., 2022; Hummel & Jobst, 2024). The discussion surrounding financial-materiality versus double-materiality viewpoints persists in influencing the breadth and depth of these frameworks (Abhayawansa et al., 2022). Although these reforms aim to enhance accountability, the effectiveness of disclosures can still be compromised if companies use sustainability reports more for impression management than for true transparency (Cepêda et al., 2025). The discussion surrounding financial-materiality versus double-materiality viewpoints persists in influencing the breadth and depth of these frameworks (Abhayawansa et al., 2022). Although these reforms aim to enhance accountability, the effectiveness of disclosures can still be compromised if companies use sustainability reports more for impression management than for true transparency (Cepêda et al., 2025). Current research emphasizes the necessity of robust governance and enforcement systems to protect report integrity and avoid a disconnection between disclosure and actual practice (Aluchna et al., 2024).

Earnings Management

Earnings management (EM) involves the deliberate alteration of accounting outcomes by managers to affect reported results, frequently to deceive stakeholders or meet contractual or market goals (Bui, 2024; Sari et al., 2023). Two primary types are recognized: accrual-based earnings management (AEM) and real-activities manipulation (REM) (Alghemary et al., 2024). AEM entails modifying accounting estimates and accruals, which auditors can readily identify via financial statement analysis, whereas REM influences actual operational choices like production, pricing, or discretionary expenditures, making it more challenging to reveal and potentially more detrimental to company value (Alghemary et al., 2024). Evidence indicates that both types have decreased after stricter regulations, although AEM frequently reappears when compliance demands lessen (Espahbodi et al., 2022).

The relationship between EM and sustainability or CSR reporting is still intricate. Certain research indicates that companies involved in EM often display substantial sustainability reporting to shift focus from financial discrepancies or to regain legitimacy (Ningsih et al., 2023). Some believe that reliable sustainability practices can limit EM and improve earnings quality by reinforcing ethical responsibility and governance (Alodat et al., 2024). The connection between sustainability reporting and the quality of earnings—whether natural or voluntary—continues to be a key focus of research, with findings varying across different institutional frameworks and governance contexts (Septiani & Yuyetta, 2020).

Legitimacy Theory

Legitimacy theory explains corporate sustainability reporting as a means to align organizational behavior with societal expectations and maintain the "social license to operate" (Martens & Bui, 2023; Ogunode, 2022). Firms disclose sustainability information strategically to gain or defend legitimacy by demonstrating responsiveness to environmental and social demands, especially after reputation-threatening events (Pombinho et al., 2024; Semenova, 2023). Empirical evidence indicates that heightened stakeholder scrutiny and regulatory pressure can motivate companies to reduce EM and improve reporting quality (Akintoye & Kassim, 2022; Alodat et al., 2024). Consequently, organizations seeking legitimacy through transparent disclosure often display stronger ethical norms in financial communication.

However, pursuing legitimacy does not always ensure authentic transparency. Sustainability reporting can also foster impression management or greenwashing, particularly when intertwined with EM behavior (du Toit & Delport, 2024; Pombinho et al., 2024). Firms involved in EM may obtain sustainability assurance or issue elaborate ESG disclosures to protect their legitimacy rather than to reflect real performance (Meqbel et al., 2024). Thus, sustainability reports can function symbolically to manage external perceptions rather than substantively improving conduct (Ningsih et al., 2023). The resulting legitimacy–earnings-management dynamic underscores how disclosure can both enhance and obscure accountability (Yasar & Yalçın, 2023)

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Stakeholder Theory

Stakeholder theory posits that firms operate within networks of multiple interest groups whose expectations must be addressed to maintain long-term viability (Al-Shaer et al., 2022; Nakpodia et al., 2024). Increasing demands from investors, regulators, and consumers have prompted organizations to integrate ESG communication into their strategic narratives as evidence of accountability and transparency (Amin et al., 2024; Du Toit, 2024). Managerial decisions on disclosure content and depth are shaped by such pressures, aiming to sustain legitimacy and stakeholder confidence (Alessa et al., 2024; Pramono Sari et al., 2023). Through both normative and instrumental views, sustainability reporting becomes a mechanism for managing relationships and demonstrating corporate commitment to responsible practices (Nandy et al., 2023; Pramono Sari et al., 2023).

Stakeholder influence also constrains opportunistic behavior by reinforcing ethical norms and discouraging EM (Alodat et al., 2024; Yasar & Yalçın, 2023). Firms that genuinely prioritize stakeholder welfare tend to adopt transparent financial reporting as part of their social responsibility (Liu et al., 2023). Nonetheless, some firms exploit ESG disclosure primarily to appease stakeholder expectations while concealing EM activities (Liu et al., 2023). Ethical integrity thus remains crucial, as stakeholder theory underscores the moral duty to reduce information asymmetry and ensure credibility in sustainability communication (Baldarelli et al., 2023).

Signaling Theory

Signaling theory provides insight into how firms use sustainability disclosures to communicate private information about performance, reliability, and long-term value creation (Di Chiacchio et al., 2024; Friske et al., 2023). Companies employ sustainability reports to signal credibility, especially amid heightened stakeholder scrutiny and the need to minimize information asymmetry (Di Chiacchio et al., 2024; López-Santamaría et al., 2021). Empirical findings show that consistent, high-quality disclosures can enhance reputation, attract ESG-oriented investors, and positively influence firm value over time (Friske et al., 2023; Makarenko et al., 2023). Such signaling builds trust by portraying sustainability as integral to corporate strategy.

Nevertheless, the credibility of sustainability reporting as a signal may weaken when earnings management or greenwashing occurs (Kathan et al., 2025). EM distorts the authenticity of disclosed information, turning reports into misleading signals intended to obscure financial manipulation (Ningsih et al., 2023). Research shows that selective or exaggerated ESG statements—so-called "cheap talk"—erode trust and increase scepticism among investors and other stakeholders (Bingler et al., 2024; He et al., 2024; Roszkowska-Menkes et al., 2024). Distinguishing genuine sustainability signals from deceptive ones is therefore essential for evaluating the true ethical and financial integrity of corporate reporting.

METHODS

The approach used in this study is a thorough literature review, entailing the organized gathering and qualitative evaluation of secondary data from trustworthy academic references. This method examines journal articles, books, and academic publications regarding sustainability reporting, earnings management, and theoretical frameworks like legitimacy, stakeholder, and signaling theory (Chigbu et al., 2023). While not adhering to a formal PRISMA protocol, the literature review approach is broadly acknowledged as a legitimate way to synthesize current knowledge, highlight research gaps, and suggest future research directions across various fields (Chigbu et al., 2023; Snyder, 2019). The study creates a thorough insight into the complex relationship and continuous academic discussion related to these significant corporate phenomena.

This research employs a systematically organized descriptive qualitative methodology to integrate prior studies, discern conceptual trends, and offer detailed analysis (Furidha, 2024; Indahwati et al., 2023). This methodological approach allows for the investigation of contextual subtleties and managerial incentives—an important viewpoint in qualitative accounting studies (Hiebl, 2023). The qualitative framework enables a detailed investigation of how sustainability reporting relates to earnings management within the wider framework of transparency and corporate legitimacy, in line with the principles of literature reviews that strive to create a cohesive narrative via textual analysis (Kalpokas & Radivojevic, 2021). As a result, this study offers an enhanced understanding of these dynamics, merging theoretical analysis with empirical evidence from previous studies

RESULTS

Table 1. Result

	Title	Authors	Year	Result
1	Sustainability reporting quality and post-audit financial reporting quality: Empirical evidence from the UK	Al-Shaer, Habiba	2020	High-quality sustainability reports are negatively associated with earnings management, indicating greater financial transparency. The effect is strengthened by higher audit effort, suggesting that robust sustainability reporting reflects a broader commitment to reporting quality.
2	Corporate sustainability in the Nordic countries – The curvilinear effects on	Rainer Lueg and Radina Pesheva	2021	Corporate sustainability disclosure positively influences shareholder

	shareholder returns			returns, particularly through governance practices. However, excessive or over-reporting reduces value, suggesting an optimal level of sustainability disclosure for maximizing shareholder outcomes.
3	Voluntary disclosure of scope 3 greenhouse gas emissions and earnings management: Evidence from UK companies	Alpaslan Yasar & Neriman Yalçın	2023	Voluntary disclosure of Scope 3 GHG emissions shows a negative but insignificant relationship with earnings management, indicating that such environmental transparency alone does not substantially constrain managerial opportunism in UK firms.
4	Earnings Management and Sustainability Reporting Disclosure: Some Insights from Indonesia	Sri Ningsih, Khusnul Prasetyo, Novi Puspitasari, Suham Cahyono, and Khairull Anuar Kamarudin	2023	Firms in Indonesia engaging in earnings management tend to produce higher-quality sustainability reports, suggesting that sustainability disclosure may serve as a legitimizing tool rather than a signal of genuine transparency.
5	Real earnings management and ESG disclosure in emerging markets: The moderating effect of managerial ownership from a social norm perspective	Tingli Liu, Aya Abdelbaky, Ahmed A. Elamer, and Mohamed Elmahgoub	2023	Higher real earnings manipulation is associated with lower ESG disclosure among Egyptian firms, indicating short-term opportunism that undermines sustainability

				transparency. Managerial ownership weakens this negative link, suggesting governance can mitigate opportunistic behavior in emerging markets.
6	Unlocking the Power of Reporting: Exploring the Link between Voluntary Sustainability Reporting, Customer Behavior, and Firm Value	Omar. A. Alghamdi and Gomaa Agag	2023	Voluntary sustainability reporting initially reduces firm value and customer response but becomes value-enhancing over time, supporting signaling theory that credible sustainability disclosure strengthens stakeholder trust as reporting quality matures.
7	Thirty Years of Sustainability Reporting: Insights, Gaps and an Agenda for Future Research Through a Systematic Literature Review	Elda Du Toit	2024	Sustainability reporting has evolved from environmental to comprehensive ESG disclosure, yet gaps in standardization and data comparability persist. Future directions emphasize developing industry-specific metrics and assessing long-term impacts on corporate performance and stakeholder trust.
8	Earnings management and sustainability assurance: The moderating role of CSR committee	Rasmi Meqbel, Mohammad Alta'any, Salah Kayed, and Ahmed Al-Omush	2024	Firms engaging in earnings management are more likely to obtain sustainability assurance reports to maintain legitimacy, indicating a symbolic use of assurance. The presence of a CSR

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				committee mitigates this effect, promoting more substantive sustainability practices.
9	Does corporate sustainability disclosure mitigate earnings management: empirical evidence from Jordan	Ahmad Yuosef Alodat, Hamzeh Al Amosh, Osamah Alorayni, Saleh F. A. Khatib	2024	Greater sustainability disclosure among Jordanian firms reduces earnings management and enhances the credibility of financial reporting, suggesting that transparent sustainability practices foster ethical corporate behavior.
10	The Influence of Sustainability Reporting in Enhancing Firm Value	Hod Amin, Mohd Halim Kadri, Raja Adzrin Raja Ahmad	2024	Sustainability reporting enhances firm value by strengthening reputation, investor confidence, and long-term financial performance. However, its impact depends on disclosure quality, regulatory context, and industry characteristics, reflecting complex mechanisms behind the value–sustainability link.
11	Sustainability Reporting, Corporate Reputation, and Firm Performance: Moderating Role of Third-Party Assurance	Azlan Amran, Munir A. Abbasi, Behzad Foroughi, Vani Tanggamani	2024	Sustainability reporting positively influences both corporate reputation and financial performance, with stronger effects in non-sensitive industries. Third-party assurance further strengthens the link between sustainability disclosure and

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				reputation, highlighting its credibility-enhancing role.
12	Beyond Compliance: How ESG Reporting Influences the Cost of Capital in UK Firms	Ahmed Saber Moussa and Mahmoud Elmarzouky	2024	ESG disclosure is unexpectedly associated with a higher cost of capital, but strong corporate governance reverses this effect, lowering financing costs. This suggests that governance quality determines whether ESG transparency signals risk or credibility to investors.
13	Determinants of sustainability reporting: A systematic literature review	Paul Arkoh, Francesco Scarpa, and Antonio Costantini	2024	A systematic review reveals that sustainability reporting is driven by institutional pressure, stakeholder expectations, and legitimacy concerns, though determinants vary across regions and industries. Future research should address gaps in non-listed and environmentally sensitive firms.
14	The relationship between corporate sustainability performance and earnings management: evidence from emerging East Asian economies	Linh-TX Nguyen	2024	Corporate sustainability performance negatively affects both real and accrual-based earnings management in emerging East Asian firms, indicating that stronger sustainability practices foster ethical conduct and enhance

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				financial reporting transparency.
15	From reporting to responsibility: investigating the influence of sustainability disclosure on earnings management	Kamran Ali, Hafiz Muhammad Arslan, Muhammad Mubeen, Azeem, Zhao Zhen-Yu, Jiang Yushi, and Miao Miao	2024	A systematic review of 145 studies shows that sustainability disclosure generally constrains earnings management through improved transparency, governance, and reputation, though effects vary by ownership structure, gender diversity, and disclosure type. The study integrates stakeholder and legitimacy perspectives to explain these dynamics.
16	Sustainability performance and earnings management: institutional and regulatory perspectives	Raden Roro Widya Ningtyas Soeprajitno, Ainun Na'im, Indra Wijaya Kusuma & Fuad Rakhman	2024	Firms with higher sustainability performance reduce accrual-based but increase real earnings management, consistent with moral licensing theory. These effects are stronger in countries with weaker regulatory quality, highlighting how institutional environments shape managerial reporting behavior.
17	Revisiting knowledge on ESG/CSR and financial performance: A bibliometric and systematic review of moderating variables	Marcos Alexandre dos Reis Cardillo and Leonardo Fenando Cruz Basso	2025	A bibliometric review reveals that the ESG–financial performance relationship is heavily moderated by governance quality, cultural context, and market maturity.

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				Inconsistent results across studies highlight the need for standardized measures and deeper exploration of social and firm-specific moderators.
18	Theories underlying environmental, social and governance (ESG) disclosure: a systematic review of accounting studies	Carla Del Gesso and Rab Nawaz Lodhi	2025	A systematic review of 142 ESG disclosure studies identifies stakeholder, legitimacy, institutional, agency, and signaling theories as dominant frameworks, often used in combination. Emerging perspectives—such as stakeholder salience and reputation theories—broaden understanding of ESG disclosure motivations.
19	Voluntary Audits of Nonfinancial Disclosure and Earnings Quality	Sunita S. Rao, Carlos Ernesto Zambrana Roman, and Norma Juma	2025	Voluntary CSR assurance combined with strong corporate governance reduces earnings management, especially when assurance is provided by non-accounting firms, indicating that credible external verification strengthens the authenticity of sustainability disclosure.
20	Corporate social responsibility and financial performance in a cross-country context: A meta-	Wanli Li, Tiantian Yan, and Yue Li	2025	A meta-analysis of 223 studies confirms a generally positive relationship between CSR and financial

	analysis			performance, strongest in developing economies and voluntary disclosure settings. The findings support signaling and institutional theories in explaining CSR's value-enhancing effects.

DISCUSSION

Sustainability Disclosure, Transparency, and Earnings Management

Research findings in various situations generally suggest that sustainability reporting enhances corporate transparency and decreases the chances of earnings manipulation. Sustainability reports of high-quality correlate with enhanced credibility in financial reporting and reduced discretionary accruals, especially when backed by auditing and third-party verification (Al-Shaer et al., 2022; Rao et al., 2025). Aligned with stakeholder theory, these disclosures meet the demands of investors, regulators, and the public by minimizing information asymmetry and enhancing ethical accountability (Alessa et al., 2024; Alodat et al., 2024). Likewise, signaling theory suggests that companies utilize clear ESG communication to indicate trustworthiness and long-term value generation; ongoing, trustworthy disclosure enhances reputation and builds investor confidence gradually (Amin et al., 2024; Friske et al., 2023). The studies analyzed indicate that transparency mechanisms—like sustainability assurance, CSR committees, and comprehensive governance frameworks—act as internal controls that limit opportunistic accounting practices (Liu et al., 2023; Meqbel et al., 2024). Thus, sustainability reporting functions not only as a means of external communication but also as an additional governance tool that boosts the reliability of financial data and the confidence of stakeholders.

Legitimacy and Symbolic Reporting Behavior

Although these beneficial impacts exist, multiple studies indicate that sustainability disclosure might be strategically employed to uphold legitimacy instead of genuinely demonstrating transparency. Research from Indonesia and various emerging markets indicates that companies involved in earnings manipulation frequently produce more detailed sustainability reports, implying that such disclosures serve as a legitimizing facade instead of proof of ethical behavior (Meqbel et al., 2024; Ningsih et al., 2023). This corresponds with legitimacy theory, which indicates that organizations aim to maintain their "social license to operate" by addressing societal demands and regulatory requirements, despite internal practices being inconsistent with public pledges (Martens & Bui, 2023; Ogunode, 2022). In a like manner, institutional theory explains how outside pressures promote symbolic adherence—companies replicate sustainability terminology or secure assurance reports mainly to meet official obligations (Cepêda et al., 2025; du Toit & Delport, 2024). In this setting, ESG disclosure acts as a tool for impression management or "green talk," potentially concealing earnings manipulation and eroding stakeholder trust (Khelil-Rhouma & Hamed-Sidhom, 2021; Roszkowska-Menkes et al., 2024). These studies together show that the success of sustainability reporting relies on both the amount disclosed and the credibility and consistency with actual sustainability performance.

Contextual Differences and Managerial Implications

The relationship between sustainability reporting and earnings management differs significantly depending on institutional and regulatory environments. Data from advanced economies like the United Kingdom shows that robust disclosure and required reporting systems improve transparency and discourage EM (Al-Shaer, 2020; Yasar & Yalçın, 2023). Conversely, findings from developing nations—like Indonesia, Egypt, and Jordan—exhibit varied results, as inadequate governance frameworks and poor enforcement permit companies to use disclosure for gaining legitimacy instead of accountability (Alodat et al., 2024; Liu et al., 2023; Ningsih et al., 2023). These discrepancies indicate the moderating influence of institutional quality, cultural norms, and assurance mechanisms (Du Toit, 2024; Soeprajitno et al., 2024). From a management perspective, merging ESG practices with financial governance boosts both trustworthiness and sustainable value creation (AMIN et al., 2024; Li et al., 2025). Regulators and policymakers are therefore urged to enhance sustainability-reporting standards—like CSRD, ESRS, and ISSB—to promote comparability and minimize symbolic disclosure (Hummel & Jobst, 2024; Papafloratos & Pantazi, 2025). In general, the findings highlight that sustainability reporting can either promote transparency or provide legitimacy, based on managerial motivation and institutional enforcement. Authentic advancement necessitates aligned standards, trustworthy third-party verification, and governance frameworks that shift symbolic compliance into meaningful accountability

CONCLUSION

This research conducted a systematic review of global evidence regarding the relationship between sustainability reporting and earnings management, set within the larger context of transparency and legitimacy. The findings indicate that sustainability reporting typically increases corporate responsibility, reduces information gaps, and enhances the quality of disclosures—especially when backed by robust governance, assurance systems, and active stakeholder involvement. Nonetheless, the results indicate that sustainability reports can fulfill symbolic roles, acting as instruments for legitimacy or greenwashing in situations characterized by weak regulatory enforcement and low institutional quality. This dual function emphasizes the fragile equilibrium between transparency and legitimacy that characterizes contemporary corporate reporting methods.

The analysis theoretically combines stakeholder, signaling, and legitimacy perspectives to illustrate how sustainability reporting may restrict and obscure earnings management. The transparency pathway corresponds with stakeholder and signaling theories, where revealing information enhances ethical behavior and fosters investor confidence. On the other hand, legitimacy theory assists in clarifying symbolic disclosure driven by reputation preservation instead of true responsibility. The differing evidence highlights the relationship's context-dependent nature, influenced by institutional strength, market maturity, and managerial intent.

The review highlights the necessity for standardized and enforceable sustainability-reporting frameworks—like the CSRD, ESRS, and ISSB—to improve comparability and

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credibility for policymakers and practitioners. Enhanced assurance methods, governance supervision, and alignment of financial with non-financial metrics are essential for transforming symbolic compliance into meaningful accountability. Subsequent investigations need to tackle new gaps by analyzing the interaction between accrual-based and real earnings management, delving into behavioral and qualitative aspects of disclosure choices, and broadening comparative research across various regulatory and cultural contexts to understand the changing dynamics of sustainable transparency

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