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Legitimacy Strategies: SDG Disclosure, Earnings Management, and Accounting Changes in Indonesian Banking

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Abstract: This study investigates the relationship between Sustainable Development Goals (SDGs) disclosure and earnings management in the Indonesian banking. The research addresses whether SDG disclosure reflects a symbolic or substantive legitimacy strategy by examining its association with opportunistic accounting behavior. The sample comprises the listed Indonesian banks for the 2016 to 2023 period, yielding 157 firm-year observations. Regression analysis with robust standard errors is employed to test the hypotheses and explore the moderating role of PSAK 71 in the relationship. The findings reveal that SDGs disclosure is positively associated with earnings management. Moreover, this relationship becomes stronger after PSAK 71 implementation, which implies enhanced managerial discretion, suggesting a symbolic function. These results are consistent for overall SDG disclosure, across SDG pillars, and across model specifications. These findings suggest that sustainability disclosure may be used as a channel for opportunistic behavior, particularly in contexts where accounting changes expand the scope of managerial discretion.
Keywords: Legitimacy Strategy; Opportunistic Accounting Behavior; Accounting Changes; Business Ethics.

Abstrak: Penelitian ini menginvestigasi hubungan antara pengungkapan Tujuan Pembangunan Berkelanjutan (TPB) dan praktik manajemen laba di sektor perbankan Indonesia. Penelitian ini meneliti apakah pengungkapan TPB mencerminkan strategi legitimasi simbolis atau substantif dengan menguji hubungannya terhadap perilaku akuntansi oportunistik. Sampel penelitian adalah bank terdaftar di Bursa Efek Indonesia periode 2016 to 2023 dengan sampel akhir 157 observasi. Analisis regresi dengan robust standard errors digunakan untuk menguji hipotesis dan mengeksplorasi moderasi dari implementasi PSAK 71 terhadap hubungan tersebut. Temuan menunjukkan pengungkapan TPB berhubungan positif dengan praktik manajemen laba. Hubungan tersebut menjadi lebih kuat setelah diberlakukannya PSAK 71, yang berimplikasi pada peningkatan diskresi manajemen yang sejalan dengan strategi legitimasi simbolis. Temuan ini konsisten baik untuk pengungkapan SDG secara keseluruhan maupun berdasarkan tiap pilar, serta ketika menggunakan spesifikasi model yang berbeda. Temuan ini menunjukkan bahwa pengungkapan keberlanjutan dapat digunakan sebagai sarana bagi perilaku oportunistik, khususnya dalam konteks ketika perubahan standar akuntansi justru memperluas ruang diskresi manajemen.
Kata Kunci: Strategi Legitimasi; Perilaku Akuntansi Oportunistik; Perubahan Akuntansi; Etika Bisnis.

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INTRODUCTION

The SDGs have evolved into a global agenda adopted by communities around the world since their initial launch by the United Nations in September 2025. The SDGs consist of 17 goals and 169 targets that reflect a transformative agenda to address global challenges ranging from poverty eradication to climate change mitigation. The SDGs balance the three main pillars of sustainable development, namely economic, social, and environmental, into an integrated global vision (Mensah, 2019; Purvis et al., 2019). Achieving this ambitious agenda requires the involvement and collaboration of all stakeholders, including the business sector (Aibar-guzm et al., 2025; Emma & Jennifer, 2021). In response, the business sector has been disclosing activities related to SDG goals to demonstrate support for achieving the global agenda. This positions SDG disclosure as a means of demonstrating corporate commitment to attaining the 2030 Agenda for Sustainable Development (Elalfy et al., 2020; Heras-Saizarbitoria et al., 2022).

Previous studies have documented that SDG disclosure enhances consumer perception and loyalty, corporate reputation, and financial performance (Alodat, Salleh, et al., 2024; Elansari et al., 2024; Iqbal, 2025; Lin et al., 2025). These results position SDG disclosure as a means not only to demonstrate corporate commitment but also to support the sustainability of the corporation itself. The findings highlight two interesting concerns. On the one hand, SDG disclosure is viewed as a strategic tool that conveys the company's sustainability orientation. However, on the other side, such disclosure is prone to manipulation if used merely for self-interest gain. The voluntary nature of SDG disclosure and the lack of standardized disclosure can facilitate symbolic disclosure and are susceptible to opportunistic actions like washing processes, such as SDG-washing (del Río et al., 2024; Manes-Rossi & Nicolo, 2022) or window dressing, such as earnings management practices (Ahn & Gam, 2024; Truong et al., 2021). SDG disclosure can be substantive if it reflects a business transformation that internalizes the ethical values in sustainability (Torelli, 2021). These concerns raise an important question: Is a company's SDG disclosure truly substantive or merely symbolic?

This study investigates whether SDG disclosure is a sign of a symbolic or substantive legitimacy strategy by examining its relationship with corporate financial ethical behavior, denoted by earnings management practices, in Indonesian banks sector. Previous studies in banking that examined the relationship between SDG disclosure and financial aspects have concentrated more on its impact on financial performance (Amanova et al., 2025; Anisykurlillah et al., 2025; Curea et al., 2025; Iqbal, 2025; Iqbal & Nosheen, 2023). However, very few studies have examined the relationship between SDG disclosure and ethical financial behavior in banking. Research conducted by Ozili (2024) using cross-country data actually produced inconclusive results.

In addition, studies examining the symbolic versus substantive aspects of SDG disclosure have focused more on direct assessments of the disclosure without looking at its relationship with other aspects (del Río et al., 2024; Lodhia et al., 2023; Manes-Rossi & Nicolo, 2022). This approach has two weaknesses. First, assessing symbolic or substantive strategies is not sufficient by simply looking directly at the company's disclosure narrative. According to Emma & Jennifer (2021) assessing whether a legitimacy strategy is symbolic or substantive is not sufficient with narratives alone, but must also consider its economic and financial impact on the organization. Second, legitimacy

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strategies are part of strategies at the organizational level that involve various aspects (Crossley et al., 2021; Díez-martín et al., 2021).

This means that the sustainability values reflected in a company's SDGs are holistic principles that guide all of the company's activities, including financial aspects. In the context of this study, the pattern of a company's legitimacy strategy cannot be determined based on an assessment of a single aspect alone, namely SDG disclosure, but must consider its relationship with other aspects, in this case, the company's financial behavior. SDG disclosure may signal the company's commitment to conducting ethical and sustainable business activities. Meanwhile, earnings management practices represent unethical financial practices because they can weaken the integrity and credibility of financial reports (Almasarwah et al., 2025). SDG disclosure is used merely as a symbolic strategic tool rather than evidence of the substantive incorporation of sustainability values, when there is inconsistency concerning sustainability claims on SDG disclosure and ethical financial reporting.

This study focuses on the banking sector because banks play a distinctive role in advancing the SDGs as intermediaries and institutional practices (OJK, 2021). As financial intermediaries, banks collect, allocate, and direct financial resources to activities that can support the SDGs outcome. This includes lending for micro, small, and medium enterprises (MSMEs) and corporate borrowers, as well as funding renewable energy initiatives and climate-resilient infrastructure. Banks can also act directly through their own operations by expanding financial inclusion and literacy, strengthening access to financial services, particularly in remote areas, while embedding SDGs considerations into their risk management and portfolio decisions.

This dual function places banks in a strategic position as their decisions regarding credit policy, interest rate setting, risk assessment, and product innovation influence the direction and pace of SDG achievement (Elansari et al., 2024; Sengupta et al., 2023). Furthermore, Figure 1 shows that the banking sector on the Indonesian stock exchange is the sector with the highest percentage of GRI-based sustainability disclosure compared to other sectors. GRI-based sustainability disclosure is widely adopted and provides comprehensive guidance that is aligned with global sustainability goals (GRI, 2022). This shows that the banking sector in Indonesia is highly concerned with SDG issues, making it relevant to examine its relationship with earnings management practices in banking.

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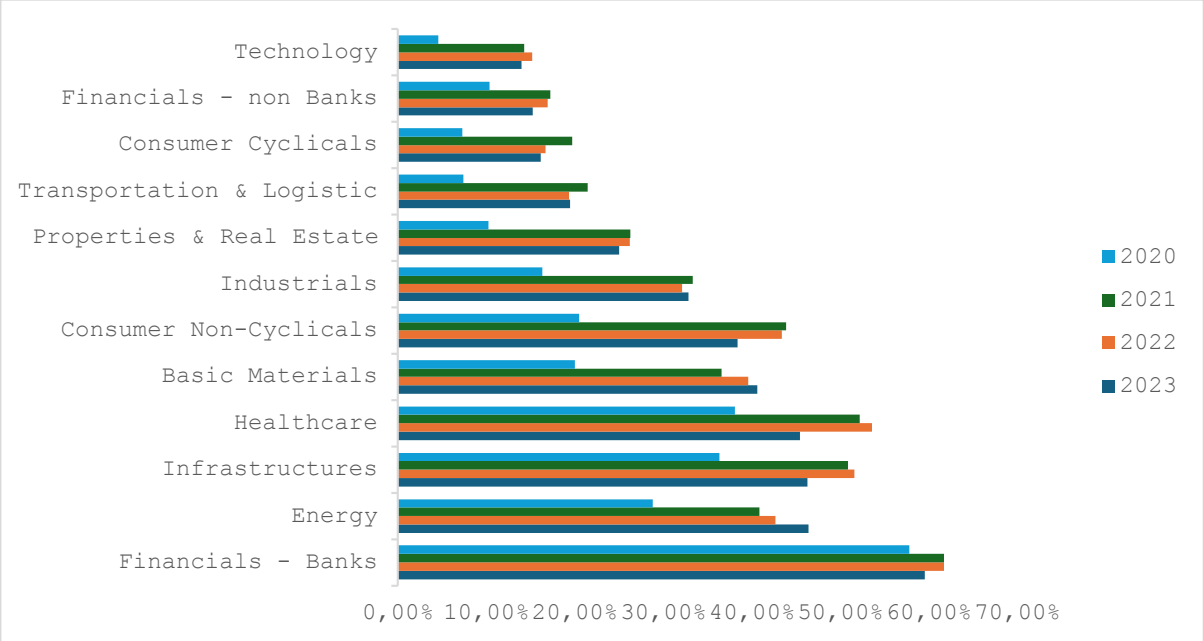

Figure 1. Indonesian Public Companies by Sector Publishing Sustainability Reports According to GRI
Source : data collected by authors

This study also investigates whether certain contexts, in this case changes in profit management patterns through the implementation of Indonesian Financial Accounting Standards (PSAK) 71, affect the relationship between SDG disclosure and earnings management. Previous studies have found that changes in regulations lead to modifications in earnings management patterns (Jaswadi et al., 2024; Lubis et al., 2023). In 2020, there is a substantial regulatory shift in Indonesia regarding the recognition of Loan Loss Provision (LLP) from the incurred credit loss (ICL) model based on PSAK 55 to the expected credit loss (ECL) model based on PSAK 71. Several studies have empirically proven that this change affects earnings management practices in Indonesian banking (Haq, 2023; Jiannan et al., 2024; Nnadi et al., 2023; Oberson, 2021). While the ECL model can improve the timeliness of risk recognition and mitigate sudden increases in provision values, it provides greater room for management discretion that can be exploited for earnings management purposes.

This study offers threefold contributions. First, it introduces a novel approach to SDG testing by linking it to financial behavior indicators, namely earnings management, compared to previous studies that focused more on financial performance aspects (Amanova et al., 2025; Anisykurlillah et al., 2025; Curea et al., 2025; Iqbal, 2025). The study design enables a direct assessment of whether companies' sustainability claims are consistent with the integrity of financial reporting in banking. Second, this study provides evidence from the banking sector in Indonesia, which is the sector with the highest percentage of sustainability disclosure compared to other sectors (**Figure 1**).

At the same time, the banking sector is the sector with stricter financial regulations than other sectors (Biswas et al., 2024). This combination makes the banking sector in Indonesia a relevant context for researching the application of legitimacy strategies by testing the relationship between non-financial and financial information. Third, this study adds a contingency factor that can influence legitimacy strategies in Indonesian banking,

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namely the change in accounting standards from PSAK 55 to PSAK 71, which is related to changes in the discretion in the recognition of provisions. This study explains whether the existence of these certain conditions can lead to more opportunistic sustainability disclosure or whether it can actually be a reflection of the internalization of substantial sustainability values (Haq, 2023; Jiannan et al., 2024; Nnadi et al., 2023; Oberson, 2021).

THEORETICAL REVIEW

Legitimacy theory is used as the foundation in this study. This theory emphasizes on organizational legitimacy, which is the alignment between the value system within an organization and the broader value system in which the organization operates (Dowling & Pfeffer, 1975). Organizational legitimacy reflects stakeholders' social perceptions of whether the organization's actions are acceptable and in line with prevailing norms, values, beliefs, and institutional expectations (Sekarlangit & Wardhani, 2021). Because legitimacy is a dynamic social assessment, changes in stakeholder expectations can create a legitimacy gap when the organization's actions are no longer in line with evolving perspectives. Therefore, organizations need to actively manage social acceptance in order to secure or maintain their legitimacy. Legitimacy theory carries two important implications. First, legitimacy can change along with changes in stakeholder expectations as well as social pressures and conventions. If an organization fails to respond to these changes, the legitimacy gap can widen and threaten the sustainability of the organization itself. Second, legitimacy can be shaped not only through organizational change but also by how the organization explains and frames its actions through various communication strategies. This logic is relevant to the banking sector, which faces simultaneous pressures from economic dynamics, regulatory changes, and growing public expectations for the financial sector to contribute to the SDGs. This combination of pressures has the potential to widen the legitimacy gap if the bank's response lags behind (Lodhia et al., 2023). The sustainability accounting literature shows that organizations communicate their involvement in sustainability issues through multiple reporting channels to secure and maintain their legitimacy (Aibar-guzm et al., 2025; Alodat, Salleh, et al., 2024; Elalfy et al., 2020; Truong et al., 2021). Within this perspective, SDG disclosure can be understood as one of the communicative mechanisms through which banks seek to address intensifying legitimacy pressures.

Further literature on legitimacy theory argues that there are two approaches to legitimacy strategies, namely, symbolic and substantive strategies (Ashforth & Gibbs, 1990; Emma & Jennifer, 2021; Lodhia et al., 2023; Manes-Rossi & Nicolo, 2022). Symbolic strategies emphasize the creation of an image that appears to be in line with public expectations without actually making concrete or substantial changes to existing business practices. The symbolic approach prioritizes impression management strategies over fundamental changes within the company. SDG disclosure becomes a communication tool that aims to foster public perception that the organization has integrated sustainability values into its business activities in the absence of substantial changes in management systems and practices (Lodhia et al., 2023; Monteiro & Gonçalves, 2025). This impression management can develop into opportunistic behavior when companies make misleading presentations, such as SDG washing and earnings management (del Río et al., 2024; Manes-Rossi & Nicolo, 2022).

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On the contrary, substantive legitimacy strategies emphasize factual and specific transformations in organizational structures and processes. Disclosure of SDGs in the context of substantive legitimacy is disclosure that demonstrates the integration of sustainability values through factual changes in a company's policies and internal management systems. Companies that adopt the sustainability values contained in the SDGs will align every dimension of the company with these values. This process can lead to substantial changes in the company's practices and way of doing business (Lodhia et al., 2023). Furthermore, Baltazar et al. (2022) state that the SDGs should be an ethical initiative that encourages collective collaboration to improve a new global morality. This normatively states that the SDGs should be a substantive legitimacy approach. The SDGs promote the formation of responsible and transparent organizations at all levels. An essential sign of a substantive approach is the alignment between corporate policy and its disclosure. Thus, if a banking institution fundamentally adopts SDGs, it will integrate the ethical business value contained therein into all dimensions of the organization. This includes the financial aspect, by reducing unethical accounting behaviors such as earnings management practices.

From a business ethics perspective, earnings management is considered unethical behavior because it manipulates the company's condition by exploiting flexibility in accounting rules that could potentially mislead decision making (Priyastiwi et al., 2020; Rudiawarni & Budianto, 2022). This behavior opposes the ethical and sustainability values inherent in the SDGs. Earnings management practices not only threaten the legitimacy of the company but also, in the long term, can lead to accounting scandals that can harm many parties (Barghathi et al., 2020; Santoso et al., 2024). Research on the relationship between SDG disclosure and corporate earnings management practices is important because assessing a company's legitimacy strategy is not sufficient by merely looking at the company's SDG disclosure. Companies that implement symbolic and substantive legitimacy strategies can provide equally good narratives, so the determining factor is to look at the alignment of SDG disclosure with other aspects, namely the company's financial behavior through earnings management (Crossley et al., 2021; Díez-martín et al., 2021; Emma & Jennifer, 2021).

Earnings management practices in the banking sector have different characteristics compared to the non-financial sector. In banking, earnings management is commonly carried out through LLP. LLP is a provision expense recognized by banks to form a credit loss allowance to cover potential losses on loan portfolios, including non-performing loans (NPL) (Lubis et al., 2023; Tran et al., 2020). In accounting terms, LLP reduces current period earnings through provision expenses and increases credit loss allowances in the statement of financial position. The value of LLP is determined based on managerial estimates that consider the risk of default and the prospects for loan recovery. This makes it the main accrual that is most vulnerable to manipulation in the banking sector. Research in the banking field widely recognizes LLP as a focal point of management discretion in bank financial reporting (Allini et al., 2025; Haq, 2023; Ozili, 2023; Proença et al., 2023). As banking is primarily characterized by loan distribution, the LLP model is considered a more appropriate model for measuring earnings management in banking than the Jones or Kothari discretionary accrual models, which are developed primarily for non-financial companies (Kanagaretnam et al., 2004; Santoso et al., 2024).

This study also analyzes the role of changes in earnings management patterns in the relationship between SDG disclosure and earnings management in the banking sector.

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These changes were driven by changes in financial accounting standards in Indonesia related to LLP. The change was the issuance of PSAK 71, which adopted International Financial Reporting Standards (IFRS) 39 as of January 1, 2020, replacing PSAK 55, which was based on International Accounting Standards (IAS) 39 (Haq, 2023; Nnadi et al., 2023). LLP measurement according to PSAK 55 is recognized based on the ICL model, which requires recognition of loss when there is objective evidence of a loss, such as default. The ICL is considered a retrospective model as it can result in a delay in the recognition of losses, which initially causes an understatement of LLP.

The ICL model has the potential to cause earnings volatility as defaults increase due to a rapid rise in provisions. Management discretion in this situation arises related to the timing of LLP recognition, either by delaying the recognition of losses until objective evidence emerges, or accelerating it in accordance with management's interests. PSAK 71 brings about changes by using the ECL model, which estimates losses earlier according to the estimated probability of default. The ECL model is prospective in nature because provisions become more proactive, thereby reducing fluctuations in provisions.

In the ECL model, loans are categorized into three stages: healthy financial assets (performing), significant increase in credit risk (underperforming), and loan default (non-performing). Transitions between stages depend on management's assessment of a significant increase in credit risk. This leads to an early increase in LLP to reduce the volatility of earnings due to the delayed recognition of losses. On the one hand, PSAK 71 can reduce earnings volatility caused by the timing of recognition. However, on the other hand, the scope of the existing assessment may inadvertently give rise to new earnings volatility arising from management's discretion over assumptions about future estimates and stage migration (Jiannan et al., 2024; Oberson, 2021). This condition shows that changes in accounting standards do not automatically improve the quality of information, but may only shift the type of discretion available to managers so that earnings management practices remain with different patterns.

Hypothesis Development. SDG disclosure within the framework of legitimacy theory represents a corporate strategy to address the disparity between societal expectations and operational practices, with the objective of acquiring, sustaining, and enhancing legitimacy in company operations. Disclosing the SDGs can be a strategic instrument for building a sustainable reputation and acquiring social legitimacy. The disclosure of SDGs as a manifestation of sustainable practices in banking is important because banks are subject to public scrutiny and regulations that can encourage management to utilize it as a means of legitimacy. Legitimacy strategies can be substantive when such disclosure truly integrates sustainability values such as disclosure that demonstrates ethical commitment and has the effect of reducing earnings management practices. In contrast, disclosure is merely a symbolic instrument when it only presents a narrative that is considered to be in line with public expectations without any real transformation. This makes SDG disclosure serve as a washing process and window dressing that can be used to cover up opportunistic actions (Emma & Jennifer, 2021; Heras-Saizarbitoria et al., 2022; Lodhia et al., 2023).

Empirical evidence on the relationship between SDG disclosure and earnings management in banking is scarce. To date, the results of Ozili (2024) studies using cross-country data are the only ones that specifically address the issue and provide inconclusive results. Additional studies on sustainability disclosure, including Environmental, Social, and Governance (ESG) and Corporate Social Responsibility (CSR), also reveal symbolic

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and substantive strategies in banking. A study by Bruno et al. (2024) shows that banks with high ESG scores tend to have high NPLs, which could potentially increase the LLP discretion. Setiawan et al. (2019) studies on Indonesian banking offer a similar result that sustainability disclosure, proxied by CSR, positively influences earnings management practices.

This condition supports symbolic legitimacy as sustainability disclosure is used as a tool to conceal low-quality financial reporting. However, the results study by Kolsi et al. (2023) is showing a contrariwise evidence as ESG performance is associated with a decrease in earnings management, supporting the substantive strategy. These conflicting findings indicate that the relationship between sustainability disclosure, involving SDG disclosure, and earnings management is still unclear. Based on this, the following hypothesis is formulated.

H1: SDG disclosure influences earnings management in banks.

According to legitimacy theory, companies strive to adapt not only to social norms but also to regulatory pressures. In the banking context, changes in accounting standards have proven to impact management discretion, including that related to earnings management practices. The shift from the PSAK 55-based ICL model to the PSAK 71-based ECL model brings substantial changes in the LLP recognition mechanism. On the one hand, the ECL model limits flexibility in determining LLP. But simultaneously, it creates new sources of discretion through credit risk estimation. Research findings in the banking sector show that new regulations can affect earnings management patterns, although the direction of change is not uniform. Lubis et al. (2023) found that managers engage in earnings management through discretion in LLP in response to the introduction of capital adequacy rules.

Additionally, Haq (2023) also found that banks in Indonesia continue to use LLP as a means of earnings management after the implementation of PSAK 71 through variations in methods and levels of discretion. These findings are consistent with international evidence that found an increase in earnings management after the adoption of IFRS 9 (Jiannan et al., 2024; Nnadi et al., 2023; Oberson, 2021).

In relation to sustainability disclosure, these differences in earnings management patterns have dual consequences. First, narrowing discretion can promote substantive functions that is in line with ethical and transparent practices in disclosure. Second, if the new regulations still provide loopholes for symbolic strategies, companies will take advantage of these opportunities and make sustainability disclosures a window-dressing activity to obscure earnings management practices. The change from the ICL to the ECL model for LLPs has the potential to create new avenues for discretion, suggesting that symbolic strategies still exist. This means that a change in accounting standards by shifting the scope of discretion for LLPs can moderate the relationship between SDG disclosure and earnings management. Based on these arguments, the following hypothesis is formulated.

H2: Changes in accounting standards moderate the influence of SDG disclosure on earnings management in banks.

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METHODS

Research Methodology. This study was conducted on companies in the financial industry, particularly in the banking subsector, listed on the Indonesia Stock Exchange between 2016 and 2023. The year 2016 was selected because it is the official year when the SDGs were implemented (Mensah, 2019). This study focuses on banks that publish sustainability reports, either as standalone reports or integrated into their annual reports, in accordance with GRI standards, and provide complete data according to variable measurement. **Table 1** presents the details of sample distribution by year.

Table 1. Sample Distribution by Year

Descriptions	2016	2017	2018	2019	2020	2021	2022	2023	Total
Public Companies in the Banking Subsector	40	43	45	45	45	47	47	47	359
Banks do not publish GRI-based sustainability reports	-27	-30	-32	-25	-19	-18	-18	-19	-188
Bank publishes GRI-based sustainability reports	13	13	13	20	26	29	29	28	171
Incomplete data	0	0	0	0	-1	-1	-1	-1	-4
Total Observations	**13**	**13**	**13**	**20**	**25**	**28**	**28**	**27**	**167**

Variable Measurement. This study does not use SDG disclosures presented directly in the company's sustainability reports to avoid differences in interpretation and inconsistent measurement bases across companies. SDG disclosure is measured using GRI-based sustainability disclosure items as the only set of standards covering most of the Global Goals (GRI, 2022). The mapping of the relationship between SDGs and GRI disclosure items is presented in Appendix 1 **Table 1**, which serves as the basis for calculating the company's SDG disclosure index. The company's SDG disclosure score is calculated by comparing the actual number of disclosures made by the company with the expected number of 199 items. This study also breaks down the measurement of SDG disclosure based on the three main pillars of the SDGs: economic, social, and environmental, which are presented in Appendix 1 **Tables 2, 3,** and **4** to examine the consistency of the findings (Bappenas, 2024a, 2024b, 2024c; Santoso et al., 2025). The SDG disclosure score per pillar is calculated based on the number of SDG disclosures made by the company compared to the expected number of disclosures, which consists of 61 items for the economic pillar, 41 items for the social pillar, and 72 items for the environmental pillar. A higher score of SDG disclosure indicates a stronger degree of corporate claim regarding their engagement with the SDGs.

Earnings management for companies in the banking subsector is calculated using the LLP model from Kanagaretnam et al. (2004) which has been extensively used as a measure of earnings management in banking (Lubis et al., 2023; Salem et al., 2021; Valdiansyah & Murwaningsari, 2022).

$$LLP_{it} = \alpha_0 + \alpha_1 NPL_{it-1} + \alpha_2 \Delta NPL_{it} + \alpha_3 \Delta LOAN_{it} + \varepsilon_{it} \quad \text{.....(1)}$$

Where i and t denote company i in year t. LLP_{it} is Loan Loss Provision, NPL_{it-1} is Non-Performing Loans in the preceding year (t-1), ΔNPL_{it} is the change in the value of Non-

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Performing Loans, and $\Delta LOAN_{it}$ is the change in the value of total loans. All variables are deflated by the beginning of the total loans. Regression is conducted annually, and the earnings management value is obtained from the absolute value of the residual in equation (1), where a higher residual value for LLP indicates a greater degree of earnings management by the company (Allini et al., 2025; Tran et al., 2020).

This study also uses control variables derived from prior studies, namely firm size, profitability, leverage, firm growth, capital adequacy ratio, loan-to-deposit ratio, and credit risk (Hansen et al., 2024; Salem et al., 2021). Additionally, this study incorporates state ownership as a control variable because state-owned enterprises, as government agencies, are actively encouraged to contribute to achieving SDGs targets (Barnes, 2019). This study also accounts for the year effect, which is attributed to the increasing trend of annual SDG disclosure. The subsequent equation model was formulated to test Hypothesis 1.

$$EM_{it} = \beta_0 + \beta_1 SDGs_{it} + \beta_2 SIZE_{it} + \beta_3 PRFT_{it} + \beta_4 LEVR_{it} + \beta_5 GRWT_{it} + \beta_6 CADR_{it} + \beta_7 LTDR_{it} + \beta_8 CRSK_{it} + \beta_9 TYPE_{it} + \beta_{10} YEAR_{it} \quad \text{.....(2)}$$

Where EM_{it} is the absolute value of the residual in equation (1), $SDGs_{it}$ is the score of SDG disclosure, including overall SDG disclosure and disclosure based on the three main pillars of SDGs: Economic, Social, and Environmental. $SIZE_{it}$ is the natural logarithm of total assets, $PRFT_{it}$ is the ratio of Net Income divided by total equity, $LEVR_{it}$ is the ratio of total debt divided by total equity, $GRWT_{it}$ is the change in revenue divided by the previous year's revenue, $CADR_{it}$ is the ratio of average total equity divided by average total assets, $LTDR_{it}$ is the ratio of total loans divided by total deposits, CRSKit is the ratio of LLP divided by total assets, $TYPE_{it}$ is a dummy variable with a value of 1 if the company is state-owned and 0 otherwise, and $YEAR_{it}$ is a dummy variable to control for time fixed effects.

The testing of Hypothesis 2 is conducted by incorporating the PSAK 71 variable as a moderating variable in equation (2). PSAK 71 represents changes in accounting standards that may affect banks' earningsmanagement behaviors. The PSAK 71 variable was measured using a dummy variable with a value of 1 for the PSAK 71 implementation period (2020 to 2023) and 0 for the period before PSAK 71 implementation (2016 to 2019). The equation model for testing Hypothesis 2 is as follows:

$$EM_{it} = \beta_0 + \beta_1 SDGs_{it} + \beta_2 PSAK71_{it} + \beta_3 (SDGs_{it} \times PSAK71_{it}) + \beta_4 SIZE_{it} + \beta_5 PRFT_{it} + \beta_6 LEVR_{it} + \beta_7 GRWT_{it} + \beta_8 CADR_{it} + \beta_9 LTDR_{it} + \beta_{10} CRSK_{it} + \beta_{11} TYPE_{it} + \beta_{12} YEAR_{it} \quad \text{.....(3)}$$

RESULT

Based on the sample selection process presented in **Table 1**, a sample of 167 firm-year observations is obtained. In the outlier testing process, 10 observations were identified as outliers and excluded from the sample. Thus, the final sample consists of 157 firm-year observations. Descriptive statistics from the final sample of this study are presented in **Table 2**.

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Table 2. Descriptive Statistics

Variables	N	Mean	Median	Standar Deviation	Minimum	Maximum
EM	157	0.014	0.014	0.010	0.000	0.047
SGDs	157	0.322	0.288	0.178	0.040	0.838
SIZE	157	25.689	25.870	1.456	22.398	28.408
PRFT	157	0.388	0.394	0.155	0.005	0.729
LEVR	157	6.379	5.786	3.003	1.053	17.071
GRWT	157	0.144	0.073	0.613	-0.948	5.709
CADR	157	0.158	0.145	0.076	0.056	0.564
LTDR	157	1.081	0.870	0.830	0.378	4.941
CRSK	157	0.010	0.008	0.011	-0.009	0.089
TYPE	157	0.369	0.000	0.484	0.000	1.000

The data in **Table 2** shows that the average earnings management value in the banking sector is 0.014. This indicates that the banking sector in Indonesia has a relatively low earnings management value. This average value is in line with the results of studies conducted by Haq (2023), Lubis et al. (2023), and Valdiansyah & Murwaningsari (2022). The SDG disclosure value of 0.332 indicates that the average SDG disclosure in the banking sector is still at a low at 33.200 per cent. This suggest that there is still a substantial gap between expectations and actual practice. These low percentages of SDG values also confirm the UN special report on the SDGs' progress. It notes that at the halfway point to the 2030 Agenda, SDG achievement remains far from the target (United Nations, 2023). The range of SDG disclosure scores from 0.040 to 0.838 shows significant SDG score variation between banks. This means that there are some banks that show their significant contribution to the SDGs, while others still provide limited contributions.

Table 3. Pearson Correlation Test Results

	EM	SGDs	SIZE	PRFT	LEVR	GRWT	CADR	LTDR	CRSK
EM	1.000								
SGDs	0.242***	1.000							
	(0.002)								
SIZE	-0.369***	0.224***	1.000						
	(0.000)	(0.005)							
PRFT	-0.102	0.175**	0.423***	1.000					
	(0.202)	(0.029)	(0.000)						
LEVR	0.120	0.148*	0.144*	0.413***	1.000				
	(0.134)	(0.064)	(0.072)	(0.000)					
GRWT	0.247***	-0.014	-0.007	0.041	0.068	1.000			
	(0.002)	(0.858)	(0.929)	(0.609)	(0.400)				
CADR	0.145*	-0.051	-0.332***	-0.243***	-0.790***	0.014	1.000		
	(0.069)	(0.524)	(0.000)	(0.002)	(0.000)	(0.864)			
LTDR	0.048	0.016	-0.184**	0.380***	-0.151*	0.097	0.363***	1.000	
	(0.551)	(0.844)	(0.021)	(0.000)	(0.059)	(0.227)	(0.000)		
CRSK	-0.071	0.073	0.021	0.166**	-0.337***	-0.052	0.452***	0.545***	1.000
	(0.374)	(0.364)	(0.789)	(0.038)	(0.000)	(0.519)	(0.000)	(0.000)	

p-values in parentheses
* *p* less than 0.100; ** *p* less than 0.050; *** *p* less than 0.010

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The results of the Pearson correlation test are presented in **Table 3**. The test results show a positive and significant correlation between the SDGs and EM variables. These results provide an initial indication of a symbolic relationship, meaning that an increase in SDG disclosure is associated with an increase in earnings management. The correlation between the independent variables in this study is generally weak to moderate. There is one correlation between LEVR and CAPR that shows a strong negative correlation of 0.790. This correlation is in line with the banking regulatory framework which states that high debt levels are associated with low capital adequacy ratios. Ain et al. (2022) and Bouaziz (2020) state that correlation coefficients below 0.800 are considered acceptable and do not indicate collinearity problems.

Table 4 presents the results of the model specification test to determine the most appropriate model by comparing the Common Effect Model (CEM), Random Effect Model (REM), and Fixed Effect Model (FEM). The result of Chow test showed an F-statistic of 1.314, and a p-value of 0.160, which indicate that the CEM model is more appropriate than the FEM model. The Breusch-Pagan Lagrange Multiplier test showed a chibar² of 0.000, at p-value of 1.000, suggesting that the CEM is more appropriate than the REM. Based on these two results, the CEM model is the most appropriate model to use in this study. This study employs an alternative specification for robustness testing of the primary model. REM is used for the robustness test because based on the Hausman test which recorded a chi² of 2.489 with p-value of 0.999, showing that REM is more appropriate than FEM. The consistency of results between CEM and REM suggests that the coefficient estimates exhibit relative stability to changes in model assumptions, thus supporting the validity of the primary findings.

Table 4. Model Specification Test Results

Test	Result	Value	Prob.
Chow	F	1.314	0.160
Breusch-Pagan LM	$chibar^2$	0.000	1.000
Hausman	chi^2	2.489	0.999

Table 5 displays the outcomes of the classical assumption tests, such as residual normality, linearity, heteroscedasticity, autocorrelation, and multicollinearity. The residuals follow a normal distribution as the Shapiro–Wilk test showed a W-statistic of 0.994 and a p-value of 0.777. There is also no signs of model misspecification as the Ramsey Reset test produced an F-statistic of 1.493 with a p-value of 0.219, indicating that the model was suitable for the investigation. The Wooldridge test resulted in an F-value of 0.022 and a p-value of 0.884, which indicates no autocorrelation. The multicollinearity test findings recorded a mean VIF of 2.306, which is below the threshold of 10. However, there is a presence of heteroscedasticity as results of the Breusch-Pagan test recorded a Chi² value of 4.277 with a p-value of 0.039. Regression estimation is conducted with robust standard errors to resolve this problem and to ensure the validity and reliability of the statistical test outcomes

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Table 5. Classical Assumption Test Results

Test	Result	Value	Prob
Shapiro–Wilk W	W	0.994	0,777
Ramsey Reset test	F	1.493	0,219
Breusch–Pagan/Cook–Weisberg	Chi2	4.277	0,039
Wooldridge	F	0.022	0,884
Variance Inflation Factor	Mean VIF	2.306	

The test results for the first hypothesis (H1) in **Table 6** showed a positive significant influence of SDG disclosure to earnings management. The CEM estimation showed a coefficient of 0.011 and a significance level of 5 percent. This result suggests that banks with higher SDG disclosure tend to exhibit higher level of earnings management practices. The results is consistent across all three pillars. Economic pillar disclosure showed a coefficient of 0.009 with a p-value of less than 0.050. Social pillar showed a coefficient of 0.010 with a p-value of less than 0.010. Similarly, environmental pillar disclosure showed a coefficient of 0.011 and a p-value of less than 0.050, indicating a positive correlation with earnings management.

Table 6. Hypothesis 1 Test Results

	CEM				REM			
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**
SGDs	0.011**				0.011***			
	(2.368)				(2.764)			
ECON		0.009**				0.009**		
		(2.103)				(2.391)		
SOCL			0.010***				0.010***	
			(2.616)				(2.863)	
ENVR				0.011**				0.011**
				(2.230)				(2.374)
SIZE	-0.002***	-0.002***	-0.002***	-0.002***	-0.002***	-0.002***	-0.002***	-0.002***
	(-3.659)	(-3.481)	(-3.653)	(-3.731)	(-3.867)	(-3.682)	(-4.001)	(-3.721)
PRFT	-0.001	0.001	-0.000	-0.002	-0.001	0.001	-0.000	-0.002
	(-0.123)	(0.088)	(-0.059)	(-0.294)	(-0.130)	(0.094)	(-0.063)	(-0.317)
LEVR	0.002***	0.002***	0.002***	0.002***	0.002***	0.002***	0.002***	0.002***
	(3.033)	(2.900)	(2.875)	(3.237)	(2.874)	(2.775)	(2.817)	(2.993)
GRWT	0.004***	0.004***	0.004***	0.004***	0.004***	0.004***	0.004***	0.004***
	(4.526)	(4.379)	(4.531)	(4.526)	(5.611)	(5.338)	(5.594)	(5.682)
CADR	0.054***	0.054**	0.052**	0.055***	0.054**	0.054**	0.052**	0.055***
	(2.734)	(2.561)	(2.521)	(2.976)	(2.486)	(2.334)	(2.329)	(2.662)
LTDR	-0.001	-0.001	-0.001	-0.001	-0.001	-0.001	-0.001	-0.001
	(-0.796)	(-0.801)	(-0.795)	(-0.723)	(-1.162)	(-1.130)	(-1.149)	(-1.082)
CRSK	-0.049	-0.048	-0.046	-0.050	-0.049	-0.048	-0.046	-0.050
	(-0.400)	(-0.389)	(-0.373)	(-0.411)	(-0.322)	(-0.314)	(-0.302)	(-0.330)
TYPE	-0.002	-0.002	-0.002	-0.002	-0.002	-0.002	-0.002	-0.002
	(-1.263)	(-1.252)	(-1.345)	(-1.261)	(-1.225)	(-1.241)	(-1.357)	(-1.159)
CONS	0.048***	0.044**	0.048***	0.051***	0.048***	0.044**	0.048***	0.051***
	(2.709)	(2.465)	(2.675)	(2.876)	(2.796)	(2.542)	(2.849)	(2.810)
Year Effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
F	7.992***	7.515***	8.296***	8.075***				
Wald X^2					319.513***	289.844***	340.974***	323.227***
R^2	0.439	0.434	0.440	0.442				

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R^2 overall					0.439	0.434	0.440	0.442
Obs	157	157	157	157	157	157	157	157

t statistics in parentheses
* *p* less than 0.100; ** *p* less than 0.050; *** *p* less than 0.010

This suggests that overall and each pillar of SDG disclosure are associated with an enhancement in earnings management practices. The robustness check using the REM also show a consistent result. In this model, aggregate SDG disclosure positively influences earnings management with a coefficient of 0.011 with a p-value of less than 0.010. Examination by pillar show a consitent findings that the economic pillar showed a coefficient of 0.009 with a p-value less than 0.050. The social pillar showed a coefficient of 0.010 with a p-value less than 0.010. The environmental pillar showed a coefficient of 0.011 with a p-value less than 0.010. All results exhibit positive correlations between SDG disclosure and earnings management. The constant result across both the primary CEM and alternative REM indicates that the results of this study are stable and reliable.

Several control variables used in this study show a significant and consistent influence on earnings management. Firm size (SIZE) shows a significant negative influence. This means that an increase in bank size can reduce the level of earnings management. On the contrary, the capital adequacy ratio (CADR), revenue growth (GRWT), and leverage (LEVR) show a significant positive influence on earnings management. This positive influence indicates that high levels of capital adequacy, growth, and leverage can actually increase earnings management activity. Other control variables, namely profitability (PRFT), the loan-to-deposit ratio (LTDR), credit risk (CRSK), and state ownership (TYPE), did not show a significant influence on earnings management. The coefficient of determination (R^2) values vary between models but remain within a slight difference between 0.434 to 0.442. This means that approximately 43 to 44 percent of the variance in earnings management can be explained by the model used. The H1 test, both overall and per pillar, and for both CEM and REM, resulted consistent empirical evidence that SDG disclosure is positively influences banking earnings management practices.

The results of the second hypothesis testing (H2) are presented in **Table 7**, which shows the estimation results for CEM, indicating that the interaction coefficient of SDGs×PSAK71 was not significant, recording a value of 0.009 with a t-statistic of 0.862. Similarly, the interactions for each pillar were all not significant, with Economy×PSAK71 yielding a coefficient of 0.010 and a t-statistic of 1.158; Social×PSAK71 producing a coefficient of 0.007 and a t-statistic of 0.905; and Environment×PSAK71 showing a coefficient of 0.001 and a t-statistic of 0.050. These results indicate that there is no strong statistical evidence that the impact of SDG disclosure on earnings management differs between the periods before and after PSAK 71 implementation. Retesting using REM showed consistent patterns. The interaction coefficient of SDGs×PSAK71 was recorded at 0.009 with a t-statistic of 0.863, and the interactions of each pillar were also not significant: Economic×PSAK71 yielded a coefficient of 0.010 with a t-statistic of 1.264; Social×PSAK71 recorded a coefficient of 0.007 and a t-statistic of 0.988; and Environmental×PSAK71 showed a coefficient of 0.001 and a t-statistic of 0.044. Thus, the results of the moderation test demonstrate no significant difference in the effect of SDGs on earnings management before and after PSAK 71 implementation.

Although the interaction variables were not significant, some control variables yielded consistent and significant results. Bank size (SIZE) has a significantly negative

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impact on earnings management, indicating that larger banks are less likely to engage in it. Contrariwise, CADR, GRWT, and LEVR have a significantly positive impact on earnings management. This suggests that managerial incentives to engage in earnings management increase as capital pressure, growth, and leverage rise. Other control variables such as PRFT, LTDR, CRSK, and TYPE are not significant.

Additional Analysis. Further analysis is conducted based on the result of H2 testing, which indicated that the implementation of PSAK 71 did not directly moderate the effect of SDG disclosure on earnings management practices. Additional testing is conducted by separating the sample group according to period before and after the implementation of PSAK 71. This consideration is based on the fact that the implementation of PSAK 71 brings about structural changes in the pattern of earnings management practices through LLP recognition. Therefore, it is important to examine whether the relationship between SDG disclosure and earnings management varies with a different patterns of earnings management. Additional testing is conducted by testing the model for H1 for each sample group before and after the implementation of PSAK 71. However, testing whether the two sampel group are statistically different is necessary before proceed to test for each sample group individually.

Table 7. Hypothesis 2 Test Results

	CEM				REM			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
SGDs	0.004				0.004			
	(0.533)				(0.591)			
PSAK71	0.001	0.001	0.002	0.002	0.001	0.001	0.002	0.002
	(0.260)	(0.271)	(0.483)	(0.648)	(0.258)	(0.264)	(0.504)	(0.669)
SDGsPSAK71	0.009				0.009			
	(0.862)				(0.863)			
ECON		0.001				0.001		
		(0.206)				(0.234)		
ECONPSAK71		0.010				0.010		
		(1.158)				(1.264)		
SOCL			0.005				0.005	
			(0.686)				(0.856)	
SOCLPSAK71			0.007				0.007	
			(0.905)				(0.988)	
ENVR				0.010				0.010
				(1.052)				(0.995)
ENVRPSAK71				0.001				0.001
				(0.050)				(0.044)
SIZE	-0.002***	-0.002***	-0.002***	-0.002***	-0.002***	-0.002***	-0.002***	-0.002***
	(-3.640)	(-3.539)	(-3.703)	(-3.551)	(-3.563)	(-3.575)	(-3.776)	(-3.416)
PRFT	-0.000	0.001	-0.000	-0.002	-0.000	0.001	-0.000	-0.002
	(-0.066)	(0.107)	(-0.005)	(-0.284)	(-0.069)	(0.117)	(-0.005)	(-0.290)
LEVR	0.002***	0.002***	0.002***	0.002***	0.002***	0.002***	0.002***	0.002***
	(3.011)	(2.864)	(2.845)	(3.225)	(2.837)	(2.746)	(2.749)	(2.984)
GRWT	0.004***	0.004***	0.004***	0.004***	0.004***	0.004***	0.004***	0.004***
	(4.579)	(4.517)	(4.596)	(4.488)	(5.759)	(5.556)	(5.758)	(5.707)
CADR	0.054***	0.054**	0.052**	0.055***	0.054**	0.054**	0.052**	0.055***
	(2.763)	(2.585)	(2.538)	(2.967)	(2.560)	(2.428)	(2.396)	(2.655)
LTDR	-0.001	-0.001	-0.001	-0.001	-0.001	-0.001	-0.001	-0.001
	(-0.856)	(-0.871)	(-0.863)	(-0.717)	(-1.223)	(-1.222)	(-1.231)	(-1.051)

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CRSK	-0.046	-0.043	-0.043	-0.050	-0.046	-0.043	-0.043	-0.050
	(-0.378)	(-0.351)	(-0.352)	(-0.409)	(-0.303)	(-0.284)	(-0.283)	(-0.329)
TYPE	-0.002	-0.002	-0.002	-0.002	-0.002	-0.002	-0.002	-0.002
	(-1.273)	(-1.246)	(-1.315)	(-1.260)	(-1.228)	(-1.229)	(-1.307)	(-1.167)
CONS	0.052***	0.050***	0.052***	0.051***	0.052***	0.050***	0.052***	0.051***
	(2.792)	(2.641)	(2.831)	(2.770)	(2.685)	(2.594)	(2.786)	(2.656)
Year Effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
F	7.737***	7.237***	7.879***	7.994***				
Wald X^2					308.123***	280.540***	330.528***	335.839***
R^2	0.441	0.438	0.442	0.442				
R^2 overall					0.441	0.438	0.442	0.442
Obs	157	157	157	157	157	157	157	157

t statistics in parentheses
* *p* less than 0.100; ** *p* less than0.050; *** *p* less than 0.010

Table 8 presents the findings of earnings management analysis for two sample groups: the period before the implementation of PSAK 71 and the period after the implementation. The test results indicate that the average EM value rose from 0.011 prior to PSAK 71 to 0.016 following its implementation, signifying an increase in earnings management post-PSAK 71. The two-sample t-test findings indicated a significant difference, with a t-statistic of 3.355 and a p-value of 0.001. The variance difference test indicated a rise in the earnings management standard deviation from 0.008 to 0.010, resulting an F-ratio of 1.610 with a p-value of 0.053, which suggests marginal significance. This outcome supports the argument that the two sub-sample groups of accounting regimes have different statistical attributes, thereby justifying their partial examinations.

Table 8. Two-Sample t-Test Results

Group	Obs	Mean	Std. dev.	t	F
Before PSAK71	57	0.011	0.008	3.355***	1.610*
After PSAK71	100	0.016	0.010		

* *p* less than 0.100; ** *p* less than 0.050; *** *p* less than 0.010

Subsequent testing with sample group segregation before and after the implementation of PSAK 71 revealed distinct results. According to **Table 9**, overall SDG disclosure for both the CEM and REM models is not significant in relation to earnings management in the period before the implementation of PSAK 71.

Table 9. Before PSAK 71 Sample Test Results

	CEM				REM			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
SGDs	0.009				0.009			
	(1.148)				(1.100)			
ECON		0.008				0.008		
		(1.270)				(1.152)		
SOCL			0.008				0.008	
			(1.124)				(1.036)	
ENVR				0.011				0.011
				(1.195)				(1.076)
SIZE	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000
	(-0.193)	(-0.132)	(-0.156)	(-0.333)	(-0.239)	(-0.165)	(-0.196)	(-0.410)

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PRFT	0.010	0.013	0.011	0.007	0.010	0.013	0.011	0.007
	(0.798)	(1.012)	(0.864)	(0.535)	(0.905)	(1.199)	(1.030)	(0.547)
LEVR	0.002*	0.002	0.002	0.002**	0.002**	0.002**	0.002*	0.002***
	(1.763)	(1.609)	(1.424)	(2.079)	(2.353)	(2.070)	(1.823)	(2.762)
GRWT	-0.005	-0.006	-0.006	-0.003	-0.005	-0.006	-0.006	-0.003
	(-0.528)	(-0.596)	(-0.611)	(-0.352)	(-0.527)	(-0.595)	(-0.598)	(-0.356)
CADR	0.090	0.085	0.084	0.097*	0.090*	0.085*	0.084	0.097**
	(1.664)	(1.576)	(1.451)	(1.834)	(1.909)	(1.746)	(1.604)	(2.120)
LTDR	0.002	0.003	0.003	0.002	0.002	0.003	0.003	0.002
	(1.162)	(1.245)	(1.208)	(1.103)	(1.536)	(1.596)	(1.530)	(1.547)
CRSK	-0.548***	-0.558***	-0.543***	-0.544***	-0.548***	-0.558***	-0.543***	-0.544***
	(-3.198)	(-3.358)	(-3.159)	(-3.258)	(-3.621)	(-3.921)	(-3.677)	(-3.515)
TYPE	-0.004	-0.004*	-0.004	-0.003	-0.004*	-0.004**	-0.004**	-0.003
	(-1.583)	(-1.693)	(-1.672)	(-1.376)	(-1.937)	(-1.982)	(-2.053)	(-1.597)
CONS	-0.008	-0.010	-0.008	-0.004	-0.008	-0.010	-0.008	-0.004
	(-0.265)	(-0.331)	(-0.264)	(-0.125)	(-0.338)	(-0.429)	(-0.354)	(-0.154)
Year Effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
F-test	10.417***	10.828***	10.632***	10.523***				
Wald X^2					206.387***	210.901***	255.571***	177.000***
R^2	0.500	0.502	0.503	0.502				
R^2 overall					0.500	0.502	0.503	0.502
Obs	57	57	57	57	57	57	57	57

t statistics in parentheses
* *p* less than 0.100; ** *p* less than 0.050; *** *p* less than 0.010

The coefficients of SDG Disclosure are 0.009 with t-statistics of 1.148 for the CEM and 1.100 for the REM. A similar result is found for each SDG pillar. The economic pillar showed a coefficient of 0.008 with t-statistics of 1.270 for the CEM and 1.152 for the REM. The social pillar showed a coefficient of 0.008 with t-statistics of 1.124 for the CEM and 1.036 for the REM. The environmental pillar showed a coefficient of 0.011 with t-statistics of 1.195 for the CEM and 1.076 for the REM. All of these values reached a significance level above 10 percent.

These results indicate that SDG disclosure is not associated with earnings management practices before the implementation of PSAK 7. Financial variables show a more significant impact. Leverage (LEVR) shows a significant positive effect with a coefficient of 0.002 and t-statistics of 1.763 in the CEM and 2.353 in the REM. Similarly, the capital adequacy ratio (CADR) shows a significant positive effect with a coefficient of 0.097 and t-statistics of 1.834 in the CEM and 2.120 in the REM. The credit risk (CRSK) showed a significant negative effect with a coefficient of negative 0.548 and t-statistics ranging approximately from negative 3.200 to negative 3.900 in both models. This finding indicates that before the implementation of PSAK 71, the primary factors influencing earnings management are more closely associated with the bank's financial status rather than the level of SDG disclosure.

The regression result displayed in **Table 10** with sub-sample after the implementation of PSAK 71 showed the opposite findings. Both CEM and REM indicate that aggregate SDG disclosure has a significant positive effect on earnings management. The SDG disclosure records a positive coefficient of 0.013 with t-statistics of 2.184 for the CEM and 2.237 for the REM. Similar outcomes is found for each SDG pillar.

The economic pillar showed a coefficient of 0.011 with t-statistics of 2.025 for the CEM and 2.206 for the REM, significant at the 5 percent level. The social pillar displayed a coefficient of 0.012 with t-statistics of 2.437 for the CEM and 2.447 for the REM, also

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significant at the 5 percent level. The environmental pillar recorded a coefficient of 0.011 with t-statistics of 1.814 for the CEM and 1.802 for the REM, significant at the 10 percent level.

These results indicate that following PSAK 71 implementation, the higher the amount of SDG disclosureis influence higher the level of earnings management practices by the bank. Moreover, control variables strengthen this result. Bank size (SIZE) showed a significantly negative influence on earnings management, resulting a coefficient of negative 0.002 with t-statistics ranging approximately from negative 2.700 to negative 3.300 and significant at the 1 percent level.

This suggests that larger institutions are more regulated in their earnings management practices. Leverage (LEVR) recorded a coefficient of approximately 0.002 with t-statistics between 2.000 and 2.400 and significant at the 5 percent level. Revenue growth (GRWT) showed a coefficient of approximately 0.004 with t-statistics ranging from 4.900 to 6.700 and a p-value below 0.010. The capital adequacy ratio (CADR) produced a coefficient of approximately 0.047 with t-statistics between 1.900 and 2.400 and significant at the 5 percent level. All these results show a positive influence on earnings management.

The results of additional analysis show that the relationship between SDG disclosure and earnings management only emerged in the period after the implementation of PSAK 71. The impact became significantly positive both in aggregate and across the three pillars of the SDGs. This result is consistent with the findings of the t-test (**Table 8**) that show the average level of earnings management increased significantly from 0.011 before PSAK 71 to 0.016 after PSAK 71. The sub-sample analysis strengthens the evidence that the influence of SDG disclosure on earnings management is also affected by changes in earnings management patterns.

Table 10. After PSAK 71 Sample Test Results

	CEM				REM			
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**
SGDs	0.013**				0.013**			
	(2.184)				(2.237)			
ECON		0.011**				0.011**		
		(2.025)				(2.206)		
SOCL			0.012**				0.012**	
			(2.437)				(2.447)	
ENVR				0.011*				0.011*
				(1.814)				(1.802)
SIZE	-0.002***	-0.002***	-0.002***	-0.002***	-0.002***	-0.002***	-0.002***	-0.002***
	(-3.240)	(-3.082)	(-3.320)	(-3.149)	(-2.871)	(-2.783)	(-3.016)	(-2.733)
PRFT	-0.004	-0.002	-0.003	-0.005	-0.004	-0.002	-0.003	-0.006
	(-0.376)	(-0.255)	(-0.302)	(-0.515)	(-0.371)	(-0.243)	(-0.287)	(-0.573)
LEVR	0.002**	0.002**	0.001**	0.002**	0.002**	0.002**	0.001*	0.002**
	(2.189)	(2.080)	(2.071)	(2.357)	(2.045)	(1.975)	(1.935)	(2.210)
GRWT	0.004***	0.004***	0.004***	0.004***	0.004***	0.004***	0.004***	0.004***
	(4.970)	(4.866)	(4.899)	(4.921)	(6.716)	(6.489)	(6.607)	(6.598)
CADR	0.047**	0.047**	0.045**	0.048**	0.047**	0.047*	0.045*	0.048**
	(2.217)	(2.079)	(2.027)	(2.407)	(1.980)	(1.875)	(1.832)	(2.124)
LTDR	-0.002	-0.002*	-0.002*	-0.002	-0.002**	-0.002*	-0.002*	-0.002*
	(-1.651)	(-1.668)	(-1.664)	(-1.557)	(-1.970)	(-1.942)	(-1.948)	(-1.911)
CRSK	0.058	0.061	0.063	0.054	0.059	0.061	0.063	0.061

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	(0.537)	(0.568)	(0.570)	(0.496)	(0.444)	(0.464)	(0.464)	(0.460)
TYPE	-0.000	-0.000	-0.000	-0.001	-0.000	-0.000	-0.000	-0.001
	(-0.221)	(-0.152)	(-0.194)	(-0.310)	(-0.237)	(-0.169)	(-0.205)	(-0.326)
CONS	0.053**	0.048**	0.054**	0.053**	0.053**	0.048**	0.054**	0.052**
	(2.494)	(2.260)	(2.524)	(2.485)	(2.251)	(2.095)	(2.333)	(2.167)
Year Effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
F-test	6.251***	5.862***	6.125***	6.432***				
Wald X^2					179.117***	157.695***	174.717***	188.146***
R^2	0.437	0.432	0.439	0.434				
R^2 overall					0.437	0.432	0.439	0.433
Obs	100	100	100	100	100	100	100	100

t statistics in parentheses
* *p* less than 0.100; ** *p* less than 0.050; *** *p* less than 0.010

DISCUSSION

The findings of this study support Hypothesis 1 by proving that SDG disclosure influences earnings management practices in the banking sector in Indonesia. The positive coefficient results confirm that sustainability-oriented disclosure does not always lead to more ethical financial reporting. Sustainability narratives may develop alongside incentives to manage reported performance, especially when external audiences respond positively to sustainability claims while monitoring and enforcement remain imperfect. This finding is more consistent with the perspective of symbolic legitimacy strategy than substantive change in reporting behavior. SDG disclosure appears to operate as a strategic communication tool that helps organisations show their alignment with stakeholder and regulatory expectations. Such a showcase may occur even when operational routines and reporting choices have not changed to the same extent. This result is consistent with prior arguments that sustainability reporting can serve reputational objectives and can be used for greenwashing practices or window dressing, thereby preserving reputational capital despite continuing opportunistic accounting practices (del Río et al., 2024; Truong et al., 2021). A related explanation about the result is through the lens of impression management (Nasih et al., 2024). Bank may construct a favourable sustainability narrative to showcase compliance and responsibility in order to mitigate reputational risk. The existence of earnings management practices alongside sustainability claims is therefore plausible (Monteiro & Gonçalves, 2025). The fact that the positive association emerges across SDG pillars suggests that legitimacy is pursued through an integrated sustainability narrative rather than through selective emphasis on a single dimension.

Direct empirical evidence linking SDG disclosure to earnings management in the banking industry still remains scarce. To date, Ozili (2024) provides the closest SDG-related banking evidence, yet the findings are inconclusive, leaving room for both symbolic and substantive interpretations depending on context and measurement. In non banking settings, however, SDG reporting has also been associated with improved financial reporting quality. For instance, Al-Hiyari et al. (2025) find that SDG disclosures are positively related to earnings quality in non financial firms, suggesting that SDG reporting can coincide with stronger reporting quality under certain governance and ownership conditions. Given the limited SDG specific evidence in banking and the mixed direction of findings across settings, benchmarking the present results against the broader sustainability disclosure literature, particularly CSR and ESG studies on earnings

management, becomes appropriate to situate the present evidence within more established empirical debates on symbolic versus substantive sustainability reporting.

Several studies are consistent with the present study, in that sustainability disclosure is positively linked to earnings management, supporting the symbolic legitimation interpretation. For example, Almubarak et al. (2023) show that higher ESG disclosure is associated with higher earnings management in an emerging-market setting, consistent with the view that sustainability disclosure can be used to shield opportunistic reporting. Similarly, Dissanayake et al. (2023) report evidence consistent with CSR being used as a reputational mechanism that can coexist with earnings management rather than constrain it. Evidence from Indonesia points in a similar direction. Ningsih et al. (2023) provide evidence that the quality of sustainability reporting is associated with earnings management practices. This condition strengthens the existence of symbolic legitimation strategies as disclosure credibility and oversight differ between companies. A study by Lestari & Muthmainnah (2025) also found that ESG-related signals can obscure stakeholders' ability to assess the reporting quality under strong earnings management incentives. This condition is congruent with the role of sustainability disclosure as part of impression management. Study from Liu et al. (2024) found that greenwashing in ESG reports happens primarily in companies with high levels of earnings management. This shows that sustainability disclosure can be used as a reputation cover once there is an incentive to engage in opportunistic financial behavior.

However, several studies resulted in the opposite direction, that credible sustainability disclosures lead to lower earnings management. This result aligns with the substantive legitimacy, where commitment to sustainability is not only presented in disclosure narratives but also expressed in responsible financial behavior. (Alodat, Amosh, et al., 2024) found that adherence to ethical values in sustainability disclosure will limit unethical financial behavior such as earnings management. Companies that incorporate the ethical dimensions of sustainability disclosure into all areas will improve the quality of the reporting, including the financial reporting. Empirical evidence in banking found that high ESG performance in banking is associated with a lower income-increasing earnings management through abnormal LLP (Kolsi et al., 2023). This indicates that ESG can serve as a disciplinary mechanism for companies related to their financial behavior. At the level of the nature of the disclosure, that mandatory ESG disclosure tends to reduce earnings management practices more consistently than voluntary disclosure. This suggests that a strong regulatory role will strengthen the quality of reporting.

Hypothesis 2 examines whether the shift to PSAK 71 reshapes managerial incentives and discretion. The results support H2 that the association between SDG disclosure and earnings management is more pronounced after the implementation of PSAK 71. PSAK 71 adopts an ECL approach consistent with IFRS 9, thereby increasing managerial judgment in credit risk estimation, staging decisions, and macroeconomic assumptions, and expanding the scope for discretion in provisioning and reported earnings. This mechanism is well aligned with evidence that the ECL model incorporates forward-looking information and allows space for managerial discretion; even as it expands the timeliness of loss recognition, managers may use that discretion more aggressively to smooth earnings through LLP, and strong governance becomes imperative for producing useful impairment estimates (Haq, 2023; Jiannan et al., 2024; Nnadi et al., 2023; Oberson, 2021). In the banking setting, evidence shows that IFRS 9 significantly affects the way banks engage in earnings management practices through LLP. This implies that a change

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in standards alone does not automatically lead to a higher accounting quality as long as there is still room for managerial discretion (Nnadi et al., 2023).

This condition is reinforced by the ECL's characteristics. ECL does not apply a specific estimation method, leading to diverse interpretations. The determination of the threshold for a significant increase in credit risk is made by management, which can increase the scope for discretion over the timing and amount of ECL. The ECL model provides significant methodological flexibility for managers that can lead to varying interpretations of the stage and the timing of loss recognition. According to Rodríguez (2021), banks and auditors tend to prefer observable and easily verifiable inputs that can facilitate defensive auditing which substantially increasing the risk of misstatement. It means that higher discretion embedded in ECL can increase opportunities for earnings management. This provides a reasonable explanation for the positive association between SDG disclosure and earnings management becomes stronger after the adoption of the ECL model. A counterargument in the literature suggests that IFRS 9 can promote transparency and reduce earnings management behavior under stronger supervisory validation and more detailed loss disclosures (Proença et al., 2024). This contrast helps interpret the post-PSAK 71 result in Indonesian banking as more compatible with a symbolic legitimation interpretation because monitoring and enforcement are still limited.

These findings strengthen the evidence that sustainability disclosure in developing countries remains largely symbolic. The limited mechanism for quality control of SDG disclosures in Indonesia allows greater room for banks to use sustainability narratives as an instrument of legitimacy without truly mitigating opportunistic actions in financial reporting. Financial Services Authority (OJK) has issued regulations regarding the obligation to prepare sustainability reports. However, its supervisory focus still emphasizes administrative compliance rather than the substance and quality of the information disclosed. The reputational pressure faced by banks as key players in advancing sustainable development drives them to project an image of conformity with the global agenda. Even though their internal practices are not entirely aligned with sustainability principles. This matches the arguments of Ozili (2024) who asserts that in developing countries, governance limitations, weak enforcement, and high public expectations make companies more likely to use SDG disclosures symbolically rather than substantively. Within this context, the disclosure of SDGs by banks in Indonesia can be considered as a reflection of symbolic legitimacy, especially when in the presence of accounting changes that provide greater support for managerial discretion. This finding also reinforces that symbolic legitimacy strategies are not just shaped by social expectations, but also by changes in regulation that permit more discretion in financial reporting. This study confirms that the relationship between SDG disclosure and earnings management is also induced by the regulatory and institutional context.

The findings suggest several implications. For regulators, it underscores the need to strengthen the credibility of SDG-related disclosure through clearer indicators, higher comparability, and reliable external assurance. These practices will limit the scope for symbolic disclosure to substitute for substantive sustainability internalization. For bank management, the results highlight that sustainability disclosure should be embedded in internal governance and reporting discipline rather than treated as a communication tool alone. Inconsistencies between SDG narratives and financial reporting integrity can undermine stakeholder trust, which is a key feature for bank sustainability. For auditors, the results imply that greater attention should be directed to the coherence between SDG

narratives and key assumptions embedded in ECL estimates, including staging judgments and macroeconomic overlays, because these inputs can materially shape provision outcomes under PSAK 71. For investors and analysts, SDG disclosure should be evaluated for quality by rechecking it with earnings-quality signals and provision-related disclosures to assess whether sustainability claims align with reporting integrity. Overall, the findings suggest that in Indonesian listed banks, SDG disclosure functions as symbolic legitimation, and this tendency becomes more salient after PSAK 71 implementation. Accordingly, improving SDG disclosure credibility and assurance, together with strengthening oversight over discretion-sensitive provision estimates, can create an essential to reduce the scope for sustainability narratives to serve as symbolic cover.

CONCLUSION

This study addresses the legitimacy strategy of SDG disclosure by testing its relationship with earnings management practices. The findings of this research yield two important conclusions. First, this study uncovered that SDG disclosure is positively associated with earnings management practices in the Indonesian banking sector. Second, further analysis indicates that this relationship is stronger after the implementation of PSAK 71, which uses the ECL model that increases discretion in credit loss recognition. Consistent results both in aggregate and in each SDG pillar, as well as in the robustness test, imply that banks extensively use SDG disclosure as a means for symbolic function. Overall, the evidence suggests that SDG disclosure in Indonesian banking is more consistent with symbolic legitimation rather than with substantive sustainability internalization, and this condition may be further strengthened as accounting changes expand management discretion.

Despite the empirical contributions of this research, there are several limitations that need to be considered. First, the measurement of SDG disclosure is based on content analysis from sustainability reports, which has the possibility to introduce subjectivity bias in the assessment process. Second, the scope of the research is focused on Indonesian banking. This specificity limits the extent to which the results can be generalized to non-financial sector or to other developing economies with different institutional constraints. Third, the research period overlapping with the COVID-19 pandemic may influence the results. The pandemic created significant pressure on credit risk profiles, loss provisions, and banks' financial reporting practices, potentially making earnings management practices and SDG disclosures during the research period not fully reflect normal patterns. Furthermore, the observation period following the implementation of PSAK 71 remains relatively short, that limit the extent to which longer-term dynamics can be captured.

Further research may expand this study in several directions. First, expanding the measurement of sustainability disclosure by including indicators of quality, verifiability, and relevance to opportunistic financial conduct to distinguish more clearly between symbolic and substantive legitimacy. Second, enlarging the scope to other developing countries to assess the consistency of the relationship patterns found in Indonesia with different institutional settings. Third, conducting a post-pandemic period analysis with a longer time horizon to see whether the relationship pattern is temporary due to crisis conditions or involves a more structural problem. Finally, integrating corporate governance factors as moderating variables to test the extent to which governance mechanisms are able to mitigate the propensity for symbolic usage of SDG disclosures.

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