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The Effect of CEO Power on ESG Disclosure with Earnings Management as a Mediating Variable

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Abstract: This study examines the effect of CEO power on ESG disclosure and investigates the mediating role of accrual earnings management. This study employs a quantitative approach using panel data from 125 non-financial companies listed on the Indonesia Stock Exchange during 2020–2024, comprising 623 firm-year observations. The analysis applies panel data regression and mediation analysis to examine structural power, ownership power, expert power, and prestige power. The results indicate that structural power and expert power have a significant positive effect on AEM, whereas ownership power and prestige power have no significant effect. AEM has a significant negative effect on ESG disclosure. Furthermore, AEM mediates the effects of structural power and expert power on ESG disclosure, but does not mediate the effects of ownership power and prestige power. This study contributes to the literature by examining accrual earnings management as an underlying mechanism linking the multidimensional nature of chief executive officer power to sustainability disclosure, providing empirical evidence from non-financial companies in Indonesia.

Keywords: ESG Disclosure, AEM, CEO Power.

INTRODUCTION

The commitment of companies to reporting Environmental, Social, Governance (ESG) disclosure represents a strategic response to the dynamics of stakeholder demands for sustainability and ethics in business practices. Indonesia is the first country in Southeast Asia to regulate corporate social responsibility obligations through Law No. 40 of 2007 concerning Limited Liability Companies. This regulation was strengthened by POJK No. 51/POJK.03/2017, which requires financial services institutions, issuers, and public companies to prepare sustainability reports as a form of ESG performance transparency. The OJK report through the Indonesia Sustainable Finance Diorama 2024 showed that ESG Funds under management increased by 25.72%, indicating growing investor interest in sustainability-based investment instruments. ESG is now considered a strategic instrument for building investor confidence and creating long-term firm value (Velte, 2019).

ESG has a significant impact on managerial behavior and corporate governance. Strong ESG performance has been proven to inhibit earnings management practices through increased

external monitoring, such as analyst coverage and market transparency (Sun et al., 2024). ESG affects corporate reputation and investor perceptions, with companies exhibiting high ESG performance tending to obtain lower-cost financing and reduced stock price risk (Mohapatra et al., 2025).

ESG disclosure highlights the importance of understanding the factors that influence the quality of disclosure itself, namely effective corporate governance. Strong governance mechanisms promote transparency and accountability while reducing the potential for managerial misconduct (Ferreira et al., 2025). Previous studies have shown that board characteristics, such as board size, independence, and diversity, play a role in determining the extent to which ESG disclosure is accurately provided (Frias-Aceituno et al., 2013). However, in recent years, attention has shifted toward the role of CEOs in shaping ESG strategies (Ferreira et al., 2025). As top executives, CEOs have significant influence over the strategic direction of companies, including their commitment to sustainability (Ferreira et al., 2025).

CEO power is an important determinant in shaping reporting practices. CEOs with greater power tend to act according to their personal preferences in strategic decision-making (Lee & Hooy, 2024). CEO power can improve operational efficiency, eliminate information asymmetry, increase bargaining power, enhance firm value through ESG practices, and increase firm value through organizational capital management (Ahsan et al., 2022; Chiu et al., 2022; Graham et al., 2020). However, excessive power can lead to overconfidence, managerial entrenchment, and policies that prioritize personal interests (Bebchuk et al., 2011).

Lin & Zhang (2025) show that expert power, ownership power, and prestige power have a positive effect on ESG disclosure, whereas structural power continues to show a negative effect. Al-Ahdal et al. (2023) emphasize that CEO power is an important component in determining the direction and integrity of ESG reporting. CEO power not only influences corporate strategy but also provides CEOs with greater discretion to engage in managerial practices such as earnings management, which may affect ESG (Khelifi, 2025).

Earnings management is used not only to meet market expectations but also to improve the company's sustainability image in the eyes of stakeholders (Liu et al., 2023). Cui et al. (2025) show that ESG that is mandated by regulation is more effective in reducing earnings manipulation practices than voluntarily disclosed ESG. This finding strengthens the argument that earnings management not only serves as a signal of reporting quality but also plays a role as a mediating variable in the relationship between CEO characteristics and ESG disclosure.

This study fills the gap in the literature by examining a multidimensional approach to measuring CEO power, as classified by Finkelstein (1992) into four main dimensions: structural power, ownership power, expert power, and prestige power. This study adopts a more comprehensive approach than previous studies, which have generally been limited to single indicators such as CEO duality or tenure. In addition, this study incorporates earnings management as a mediating variable to explain the causal mechanism between CEO power and ESG disclosure (Baron and Kenny, 1986).

This study also provides an important contextual contribution by examining ESG dynamics and earnings management practices in Indonesia as a developing country that faces challenges in the effectiveness of corporate governance and the quality of sustainability reporting, despite having formal regulations such as POJK No. 51/POJK.03/2017. By combining managerial power, accounting manipulation, and ESG practices into a single causal model, this study is expected to enrich the corporate governance literature and provide a basis for regulators and investors in assessing the integrity of sustainability reporting.

Based on this description, the problem can be formulated as follows:

1. Does CEO power affect accrual earnings management?
2. Does accrual earnings management affect ESG disclosure?

3. Does accrual earnings management mediate the relationship between CEO power and ESG disclosure?

METHODS

This study employs a quantitative approach with an explanatory research design to examine the effect of CEO power on ESG disclosure with accrual earnings management as a mediating variable. The population consists of non-financial public companies listed on the Indonesia Stock Exchange during 2020–2024. Using purposive sampling, the study obtained 623 firm-year observations. Data analysis was conducted using Eviews 13 and data were analyzed using panel data regression and the Sobel test to examine the direct and mediating effects among variables. This method was selected because panel data allow the study to examine relationships across companies and over time, while mediation analysis enables the examination of the role of accrual earnings management in the relationship between CEO power and ESG disclosure (Gujarati, 2019)

Based on the phenomena, research gaps, and novelty outlined above, this study develops a conceptual model in the form of the following conceptual framework.

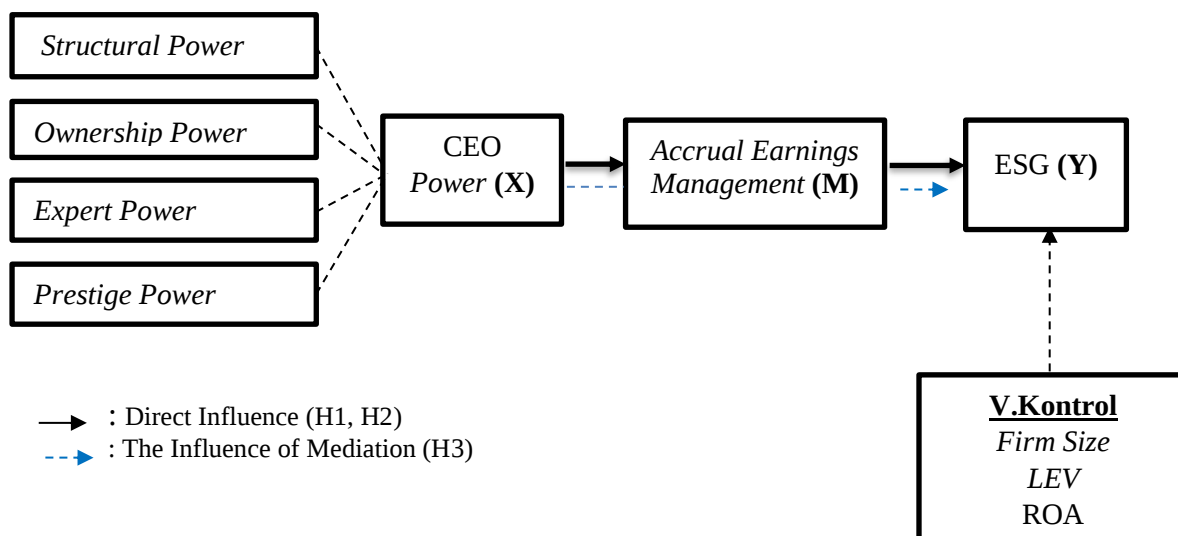


Figure 1. Conceptual Framework

RESULTS AND DISCUSSION

Results

Panel Data Regression Model Selection

The Chow test is conducted to determine the appropriate approach between the Common Effect Model (CEM) and the Fixed Effect Model (FEM) for each model in this study. If the cross-section F probability value is greater than the significance level of 0.05, the Common Effect Model (CEM) is considered the appropriate model. Conversely, the Fixed Effect Model (FEM) is considered appropriate when the cross-section F probability value is less than the significance level of 0.05 (Gujarati, 2019)

Table 1. Chow Test

Model 1			
$AEM_{it} = \gamma_0 + \gamma_1 SP_{it} + \gamma_1 OP_{it} + \gamma_2 EP_{it} + \gamma_3 PP_{it} + \gamma_4 FS_{it} + \gamma_5 PROF_{it} + \beta_6 LEV_{it} + \varepsilon_{2i}$			
Cross-section F	7.7846	(157.458)	0.0000
Cross-section Chi-square	809.771	157	0.0000
Model 2			
$ESG_{it} = \theta + \theta_1 OP_{it} + \theta_2 EP_{it} + \theta_3 PP_{it} + \theta_4 AEM_{it} + \theta_5 REM_{it} + \beta_6 FS_{it} + \beta_7 PROF_{it} + \beta_8 L$			
Cross-section F	14.2590	(158.479)	0.0000
Cross-section Chi-square	1112.5386	158	0.0000

Source: Eviews 13 (2026)

The results of the Chow test in Table 1 show that the cross-section F probability values for Model 1, Model 2, are 0.000, respectively. Therefore, the Fixed Effect Model (FEM) is the most appropriate model for Models 1 and 2

Classical Assumption Tests

Classical assumption tests are statistical tests that serve as requirements that must be satisfied in linear regression analysis.

Table 2. Normality Test

Regression Model	Jarque Bera	Prob
Regression Model 1	14827,32	0.0000
Regression Model 2	535.387	0.0000

Source: Eviews 13 (2026)

Table 2 presents the results of the normality test, showing that the Jarque-Bera probability value (0.0000) is less than 0.05, indicating that the data do not meet the normality assumption. This means that the data are not normally distributed.

Table 3. Multicollinearity Test

Variable	Regression Model 1	Regression Model 2
	VIF	VIF
SP	1.1041	1.1321
OP	1.0384	1.0409
EP	1.0327	1.0389
PP	1.0557	1.0596
AEM	-	1.0581
ROA	1.1592	1.1593
FS	1.0929	1.1181
LEV	1.1686	1.1687
ESGD	-	-

Source: Eviews 13 (2026)

Based on the results of the multicollinearity test, the independent variables in Regression Models 1 and 2 do not exhibit multicollinearity. Independent variables are considered free from multicollinearity if their tolerance values exceed 0.10 and their VIF values are less than 10 (Ghozali, 2016).

Table 4. Autocorrelation Test

Value	Model Regresi 1	Model Regresi 2
Durbin Watson	2.333838	1.355185

Source: Eviews 13 (2026)

The autocorrelation test was conducted using the Durbin-Watson statistic with a total of 623 observations. The upper bound (dU) and lower bound (dL) values for the models with 6 and 8 independent variables range from 1.84 to 1.86. Regression Model 1 has a Durbin-Watson value that falls between dU and 4–dU, indicating that the regression model does not exhibit autocorrelation. However, Regression Model 2 exhibits autocorrelation. Therefore, it is necessary to correct the standard errors using robust standard error estimation.

Table 5. Heteroscedasticity Test (Glejser)

Value	Model Regresi 2	Model Regresi 4
Prob. F	0.008	0.005
Prob.Chi Square	0.000	0.004

Source: EvIEWS 13 (2026)

The Chi-Square test shows significant probability values of 0.000 and 0.004, indicating that Regression Models 1 and 2 exhibit heteroscedasticity. Therefore, the heteroscedasticity correction procedure is conducted using the robust standard error estimation method, specifically the Heteroscedasticity and Autocorrelation Consistent (HAC) Newey-West standard error for Regression Model 2. Meanwhile, Regression Model 1 employs the Huber-White robust standard error

Model Fit Test

Table 6. Model Fit Test

Models	F	Sig	Adjusted R Square
Regression Model 1	7.5637	0.0000	0.0436
Regression Model 2	12.5935	0.0000	0.2236

Source: EvIEWS 13 (2026)

Regression Model 1 has an Adjusted R Square of 0.0436, indicating that CEO power explains 4.36% of the variation in AEM, while the remaining 95.64% is explained by other factors. Regression Model 4 has an Adjusted R Square of 0.2236, indicating that CEO power and AEM explain 22.36% of the variation in ESG disclosure, while the remaining 77.64% is explained by other factors outside the model.

Regression Model 1 has an F-statistic of 7.5637 and a significance value of 0.0000, while Regression Model 2 has an F-statistic of 12.5935 and a significance value of 0.0000. Since both significance values are below 0.05, both regression models are considered fit for the research.

Hypothesis Testing

Table 7. Hypothesis Testing Regression Model 1

Variable	Coefficient	Std.Error	t	Sig
C	1.8385	0.6349	2.8956	0.0039
SP	0.0964	0.0429	-4.5702	0.0000
OP	-0.0017	0.0014	-1.2057	0.2284
EP	0.0056	0.0027	2.0550	0.0403
PP	0.0560	0.0453	1.2373	0.2164
ROA	-0.0001	0.0027	-0.0383	0.9694
FS	-0.0615	0.0215	-2.8571	0.0044
LEV	0.0225	0.1525	0.1479	0.8824
Adjusted R Square = 0.0436 Sig F = 0.0000				
Dependent Variabel: AEM				

Source: EvIEWS 13 (2026)

The regression equation based on the statistical test results above can be expressed as follows:

$$AEM_{it} = 1.8385 + 0.0964SP_{it} - 0.0017OP_{it} + 0.0056EP_{it} + 0.0560PP_{it} - 0.0615FS_{it} - 0.0001PROF_{it} + 0.0225LEV_{it} + \varepsilon_{2i}$$

The results show that structural power has a significant positive effect on AEM, with a p-value of 0.0000, while expert power also has a significant positive effect, with a p-value of 0.0403. In contrast, ownership power $p = 0.2284$ and prestige power $p = 0.2164$ have no significant effect on AEM. Thus, the hypotheses regarding the positive effects of structural power and expert power on AEM are supported, whereas those concerning ownership power and prestige power are not supported.

Table 8. Hypothesis Testing Regression Model 2

Variable	Coefficient	Std.Error	t	Sig
C	-67.3103	13.5866	-4.9541	0.0000
SP	-4.4174	1.7152	-2.5753	0.0102
OP	-0.1220	0.0279	-4.3693	0.0000
EP	-0.1171	0.0826	-1.4174	0.1569
PP	1.0311	1.3885	0.7426	0.4580
AEM	-1.2728	0.4441	-2.8661	0.0043
ROA	0.0743	0.0534	1.3912	0.1646
FS	3.8468	0.4583	8.3932	0.0000
LEV	-6.7867	3.4389	-1.9734	0.0489
<i>Adjusted R Square</i> = 0.2236 <i>Sig F</i> = 0.0000				
Dependent Variabel: ESGD				

Source: Eviews 13 (2026)

The regression equation based on the statistical test results above can be expressed as follows:

$$ESG_{it} = -67.3103 - 4.4174SP_{it} - 0.1220OP_{it} - 0.1171EP_{it} + 1.0311PP_{it} - 0.2322AEM_{it} - 1.2728REM_{it} + 3.8468FS_{it} + 0.0743PROF_{it} - 6.7867LEV_{it} + \varepsilon_{4i}$$

Table 8 shows that AEM has a coefficient of -1.2728 and a significance value of 0.0043. Since the significance value is less than 0.05, AEM has a significant negative effect on ESG disclosure, and the hypothesis is supported.

Sobel Test

The Sobel test can be conducted using the online Sobel test calculator available at www.danielsoper.com. The results of the Sobel test are summarized in Table 9.

Table 9 Sobel Test AEM

Independent Variable	A	B	SE_A	SE_B	Sobel Test Statistic	Prob. One Tailed
Structural Power	-0.0964	-1.2728	0.0429	0.4441	1.8785	0.0385
Ownership Power	-0.0017	-1.2728	0.0014	0.4441	1.1180	0.1317
Expert Power	0.0056	-1.2728	0.0027	0.4441	2.3912	0.0464
Prestige Power	0.0560	-1.2728	0.0453	0.4441	-1.1251	0.1281
Intervening Variable: AEM						
Dependent Variable: ESGD						

Source: danielsoper (2026)

The Sobel test results show that AEM significantly mediates the effects of structural power and expert power on ESG disclosure, with p-values of 0.0385 and 0.0464, respectively. In contrast, AEM does not significantly mediate the effects of ownership power ($p = 0.1317$) and prestige power ($p = 0.1281$) on ESG disclosure. Therefore, the hypotheses regarding the

mediating effects of AEM on structural power and expert power are supported, while those concerning ownership power and prestige power are not supported.

Table 10. Direct and Indirect Effect

Hypothesis	Hypothesized Direction	Coefficient	Sig.	P Value	Decision
H1a	Positive	0.0964	0.0000	Significant	Supported
H1b	Positive	-0.0017	0.2284	Not Significant	Not Supported
H1c	Positive	0.0056	0.0403	Significant	Supported
H1d	Positive	0.0560	0.2164	Not Significant	Not Supported
H2	Negative	-1.2728	0.0043	Significant	Supported
H3a	Mediation	1.8785	0.0385	Mediation	Supported
H3b	Mediation	1.1180	0.1317	No Mediation	Not Supported
H3c	Mediation	2.3912	0.0464	Mediation	Supported
H3d	Mediation	-1.1251	0.1281	No Mediation	Not Supported

Source: Eviews 13 (2026)

Discussion

The Effect of CEO Power on AEM

The findings indicate that structural power and expert power have a positive and significant effect on accrual earnings management (AEM), whereas ownership power and prestige power have no significant effect. The effect of structural power can be explained by Agency Theory proposed by Jensen and Meckling (1976), which suggests that information asymmetry and the separation of ownership and control may create opportunities for managers to engage in opportunistic behavior. Political connections, as a proxy for structural power, may strengthen managerial positions and reduce external monitoring pressure, thereby increasing managerial discretion in financial reporting. This finding is consistent with Emarati et al. (2025), who found that political connections have a positive effect on AEM, as political connections may provide greater reporting flexibility and reduce external pressure.

The positive effect of expert power on AEM can also be explained by Agency Theory, as CEOs with longer tenure possess greater knowledge and information advantage regarding the firm. When monitoring mechanisms do not develop proportionately, this condition may increase CEO discretion in using accounting policies opportunistically. This finding is supported by Ali and Zhang (2015), who documented a relationship between CEO tenure and earnings management, particularly through discretionary accruals. Meanwhile, ownership power does not have a significant effect on AEM despite its negative coefficient, which can theoretically be associated with the convergence of interests hypothesis under Agency Theory. This finding is directionally consistent with Al-Haddad and Whittington (2019).

The Effect of AEM on ESG Disclosure

The hypothesis H2 show that AEM has a negative and significant effect on ESG disclosure. This relationship suggests that AEM is not only related to the quality of financial information but may also affect the disclosure of non-financial information. The use of discretionary accruals provides managers with discretion to influence reported earnings, which may ultimately reduce the quality and reliability of corporate information (De Vries et al., 2026).

This finding can be explained through Agency Theory by Jensen and Meckling (1976), which identifies conflicts of interest and information asymmetry as the underlying causes of managerial opportunistic behavior. When managers use accounting discretion to pursue certain interests, information asymmetry between management and shareholders may increase,

thereby reducing the incentive to provide more extensive ESG disclosure. This is consistent with Masmoudi and Ben Salem (2024), who explain that agency conflicts and information asymmetry may encourage earnings management, while corporate governance mechanisms are needed to constrain opportunistic behavior and improve the quality of corporate information.

The findings are also consistent with Hamed (2025), who found a negative relationship between ESG and earnings management. Hamed (2025) showed that ESG initiatives can reduce opportunistic earnings management because ESG performance reflects signals of corporate governance and ethical behavior. Thus, the greater the tendency of managers to engage in AEM, the lower the tendency of firms to provide more extensive and credible ESG disclosure.

AEM Mediates the Relationship between CEO Power and ESG Disclosure

The mediation test results show that AEM mediates the effect of CEO power on ESG disclosure for structural power and expert power, but not for ownership power and prestige power. This finding suggests that the source of CEO power determines the extent of managerial discretion, the ability to influence reporting processes, and how CEO characteristics and power are translated into corporate decisions. Finkelstein (1992), as applied by Lin and Zhang (2025), distinguishes CEO power into four dimensions: structural power, ownership power, expert power, and prestige power. Structural power and ownership power primarily reflect the CEO's ability to deal with internal uncertainty, whereas expert power and prestige power are more closely related to external uncertainty. These differences in the sources of power help explain why AEM functions as a mediator only for certain dimensions of CEO power.

The findings can be explained through the integration of Agency Theory and Upper Echelons Theory. Agency Theory suggests that concentrated authority may create agency problems when monitoring mechanisms are unable to constrain CEO dominance, providing managers with greater discretion in financial reporting. Meanwhile, Upper Echelons Theory argues that organizational decisions partly reflect the characteristics of top management (Hambrick & Mason, 1984). In this context, CEO power may increase the CEO's capacity to translate personal preferences and judgments into corporate policies, with AEM serving as a reporting mechanism linking CEO power to ESG disclosure. Thus, structural power and expert power are more closely associated with internal decision-making, knowledge, and influence over corporate information, allowing AEM to function as an intervening mechanism, whereas ownership power and prestige power may operate primarily through economic incentives, reputation, legitimacy, or strategic orientation.

CONCLUSION AND RECOMMENDATIONS

Conclusion

Based on the findings of this study, the following conclusions can be drawn:

1. CEO power has different effects on accrual earnings management (AEM) across its dimensions. Structural power and expert power have positive and significant effects on AEM, whereas ownership power and prestige power have no significant effects. Thus, CEOs with greater structural and expert power tend to be more strongly associated with AEM practices, while CEO ownership and prestige power do not significantly influence AEM.
2. Accrual earnings management has a negative and significant effect on ESG disclosure. Higher levels of AEM are associated with lower levels of ESG disclosure, whereas lower levels of AEM are associated with higher ESG disclosure.
3. Accrual earnings management partially mediates the effect of CEO power on ESG disclosure. AEM mediates the effects of structural power and expert power on ESG

disclosure, but does not mediate the effects of ownership power and prestige power on ESG disclosure.

Limitations

This study measures ESG disclosure as an aggregate construct and does not separately examine the Environmental, Social, and Governance dimensions. While using ESG as a single construct provides an overall assessment of corporate sustainability disclosure, it does not identify which dimension is most responsive to CEO power or earnings management. Differences in corporate characteristics and priorities across environmental, social, and governance aspects may result in different patterns of relationships. The measurement of CEO power is limited to four dimensions: structural power, ownership power, expert power, and prestige power. Each dimension is represented by specific proxies, which may not fully capture all forms of CEO power and influence. Therefore, other dimensions or forms of CEO power may remain unexplored in the research model.

Recommendations

ESG disclosure measurement can be further developed by examining the Environmental, Social, and Governance dimensions separately. This approach would provide deeper insights into whether CEO power and earnings management have different effects across each ESG dimension. CEO power measurement can be expanded by using more diverse proxies. Examining alternative proxies for structural, ownership, expert, and prestige power could provide a broader perspective on CEO power and more comprehensive evidence of its relationship with earnings management and ESG disclosure.

Author Contributions

Dian Pramitya Khairunnisa and Puji Harto contributed to developing the background, formulating the research questions, designing the research, conducting data analysis and interpretation, and jointly writing the article.

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