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Social Responsibility Disclosures: Links to Financial Violations and Performance

Fernando Africano[1], Lidia Desiana[2], Ilham Prawidi Sakti[3]
1 Jurusan Administrasi Bisnis, Politeknik Negeri Sriwijaya, Indonesia
2 Fakultas Ekonomi dan Bisnis Islam, Universitas Islam Negeri Raden Fatah Palembang, Indonesia
3 Jurusan Administrasi Bisnis, Politeknik Negeri Sriwijaya, Indonesia

General Background: Corporate social responsibility (CSR) disclosure reflects a company's accountability to societal and environmental concerns, making it essential to explore the factors influencing such disclosure. **Specific Background**: This study investigates CSR disclosure in the context of non-financial disclosures by companies listed on the Indonesia Stock Exchange (IDX), providing empirical evidence and theoretical insights. **Knowledge Gap**: While previous research has examined CSR disclosure, the interplay between financial pressure, firm size, financial performance, regulatory compliance, and environmental impacts remains underexplored. **Aims and Methods**: The study aims to analyze how these factors collectively influence CSR disclosure. Using secondary data from the Financial Services Authority and the IDX, a quantitative approach is applied with path analysis conducted via SPSS software. **Results**: Financial pressure significantly affects compliance with financial regulations. Firm size impacts environmental outcomes, which, in turn, along with firm size, drive CSR disclosure. Environmental impact mediates the relationship between firm size and CSR disclosure. **Novelty:** This study uniquely identifies the mediating roles of financial performance and environmental impact in the relationships among financial pressure, regulatory violations, firm size, and CSR disclosure. **Implications**: CSR embodies an organization's responsibility to address the societal and environmental effects of its activities, advocating ethical, transparent practices that foster sustainable development and community well-being.

Keywords: Violation of Financial Regulation, Financial Pressure, Firm Size, Financial Performance, Environmental Impacts, Disclosures of Social Respensibility of The Firm

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**Correspondence:*
Fernando Africano
fernando.africano@polsri.ac.id

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INTRODUCTION

The realization of corporate social-environmental responsibility is reflected through Corporate Social Responsibility (CSR). CSR is an organization's obligation towards the societal and environmental consequences of its choices and activities, manifested through clear and ethical conduct aligned with long-term, environmentally conscious progress and community welfare. This involves taking into account stakeholders' expectations, complying with relevant laws and international norms, and fully integrating CSR into the organization's framework. (Kritkausky & Schmidt, 2011). Companies utilize social and environmental disclosure as a means to demonstrate favorable performance to both the public and investors.

Environmental concerns are becoming progressively significant for governments, consumers, and investors alike. Foreign investors encounter challenges concerning the sourcing of raw materials and manufacturing procedures aimed at preventing environmental issues such as land degradation, ecosystem disruption, air pollution, and noise pollution. The manufacturing procedures employed and the resultant products have the potential to harm the environment. One of the aims of including environmental, social, and financial performance details in the annual report is to showcase the extent of corporate responsibility, accountability, and openness to investors and other concerned parties. The disclosure endeavors to nurture a constructive and beneficial connection between the corporation and the public, along with other stakeholders, by showcasing how the company has embedded corporate social responsibility and societal considerations into every aspect of its functioning. (Darwin & Guntensperger, 2007)

Recently violations of financial statements are frequent, one of the effects is the lack of trust of stakeholders to the company. Another way companies to increase stakeholder confidence is through CSR reports. Legitimacy theory explains that company can sustain its business activities by acquiring the approval of its stakeholders, through adherence to established regulations and standards. (Deegan, 2014). In line with the theory, some previous literature and research that have examined the phenomenon of fraud and violation of rules by the company, said the action is a form of betrayal of the rules and social norms prevailing in society, harming stakeholders and can lead to the imposition of sanctions or De-legitimization of the company (Freedman, 2003; Lanis & Richardson, 2013; Sikka, 2010; Slemrod, 2004).

The basis for disclosing CSR in Indonesia stems from Law no. 40 of 2007 focusing on Limited Liability Companies which initially only binds companies engaged in natural resources related to CSR disclosure. BAPEPAM-LK, as the regulatory body overseeing the capital market, reinforces the requirement for CSR disclosure through the issuance of the XK6 Rule concerning the publication of the Annual Report of Public Companies in August 2012. This rule applies to all companies listed in the capital market (BEI), mandating the inclusion of CSR information within their annual reports. Given the relatively recent issuance of these regulations and the lack of clarity regarding the specific disclosure requirements, there may be some ambiguity surrounding what needs to be disclosed. (BAPEPAM LK. (n.d.)., 2014). It is possible to infer that companies in Indonesia may still opt to voluntarily disclose their corporate social responsibility practices. This voluntary disclosure could serve as a strategy to redirect public attention away from other regulatory infractions in an effort to maintain the company's reputation (Deegan et al., 2002; Lanis & Richardson, 2013). Conversely, some studies have found limited evidence to fully substantiate the legitimacy theory as a rationale for the connection between managerial decisions and the disclosure of CSR. (Bebbington et al., 2008; Deegan et al., 2002; Lanis & Richardson, 2013).

Various findings emerge from research investigating the correlation between financial strain, financial performance, company size, and CSR disclosure. Anggraini's research indicates a lack of connection between financial pressure and the disclosure of CSR (Reni & Anggraini, 2006). In Malaysia, Darus and colleagues discovered a positive relationship between financial performance and the disclosure of CSR (Darus et al., 2013). Conversely, Luethge and Guohong observed no impact of corporate financial performance levels on the levels of CSR disclosure in China (Luethge & Han, 2012). Lanis and Richardson in Australia similarly concluded that financial performance does not influence the disclosure of CSR (Lanis & Richardson, 2013). Sembiring found that company size positively influenced CSR disclosure (Sembiring, 2005). This study contradicts the findings of Anggraini's research, asserting that company size does not impact CSR disclosure (Reni & Anggraini, 2006).

Previous studies have yielded inconsistent empirical results regarding the correlation between rule violations and the extent of CSR disclosure (Deegan et al., 2002; Lanis & Richardson, 2013). Influence between violation of financial rules with financial performance level (Aguzzoni et al., 2013; Baucus & Baucus, 1997; Jamal Zeidan, 2012). The influence between the level of corporate finance performance and the level of CSR disclosure is also the focus of research connecting overall level of influence and the level of corporate social responsibility disclosure (Darus et al., 2013; Gamerschlag et al., 2011; Jamal Zeidan, 2012; Lanis & Richardson, 2013). This is in harmony with the signaling theory that confirms that a company can improve its social value (Bird & Smith, 2005).

Previous studies conducted by Suratno et al. have investigated the environmental aspect of corporate social responsibility performance, revealing a significant relationship between environmental performance and CSR (Suratno et al., 2006). This aligns with Verrecchia's discretionary disclosure model, where CSR disclosure is perceived as a means for environmentally responsible companies to convey positive information to market participants about their performance (Verrecchia, 1983).

The number of violation cases handled by Bapepam is evidence that there is an audit failure in detecting fraudulent financial statements. Cressey (cited by Skousen et al) concludes that cheating generally has three common traits, namely pressure, probability, and rationalization called fraud triangle (Skousen et al., 2009). Cressey's theory suggests that in fraudulent situations, there are consistently present factors such as pressures, opportunities, and rationalizations. This notion of the fraud triangle was officially introduced in professional literature within SAS No. 99, titled "Consideration of Fraud in a Financial Statement Audit (Skousen et al., 2009). Cressey and others have previously employed fraud triangle analysis to identify fraud in past financial statements (1953), (Skousen et al., 2009). Skousen et al. mention that Persons (1995) and Kaminski, Wetzel, Guan (2004) devised a predictive model for fraud utilizing financial ratios (Kaminski et al., 2004; Persons, 1995). Another study was conducted by Beneish (1997) that total accruals, leverage, and sales divided by total assets can be beneficial in identifying companies that violate GAAP and those that aggressively manipulate income using the accrual basis. (Skousen et al., 2009)

Environmental performance is also influenced by financial performance, it is seen in the research of Suratno et al that find environmental performance have an effect on to economic performance (Suratno et al., 2006). Dunn and Sainty also found a positive correlation between corporate social performance with financial performance and debt (Dunn & Sainty, 2009). According to Pfleiger et al environmental conservation carried on by the company can be bring beneficial because the interest of shareholders and stakeholders provides support to companies that do environmentally responsible management (Ja'far S & Arifah, 2006). In addition to environmental performance, the disclosure of environmental performance is also influenced by several factors including financial performance and industry type.

This study is among the first to systematically investigate how financial pressures, violations of financial regulations, company size, and environmental performance interact to influence CSR disclosure in the Indonesian context. By integrating signaling theory, legitimacy theory, and fraud triangle analysis, this research provides a holistic understanding of the factors shaping CSR practices and disclosures.

The study aims to address empirical inconsistencies by analyzing CSR disclosure in Indonesia, where regulatory requirements for CSR are relatively recent and ambiguous. It employs path analysis to identify the mediating roles of financial performance and environmental impact in shaping CSR practices. The findings contribute to both theory and practice by offering insights for policymakers, regulators, and companies aiming to enhance transparency and stakeholder trust through CSR initiatives.

Signaling Theory

Signaling theory allows us to address value problems with empirical data tested in terms of individual strategies and social dynamics (Bird & Smith, 2005). Signaling theory provides a boost to the company in providing information to external parties. The motivation stems from the information imbalance between management and external stakeholders. To mitigate this imbalance, companies must divulge both financial and non-financial information they possess. One aspect is CSR disclosure activities of the company. The aim of CSR reporting is to communicate to investors that the company is not solely focused on financial data but also values its impact on the surrounding environment.

Theory of Legitimacy

Legitimacy theory in accounting is an explanation of an organization's actions to maintain business actions and organizational image with a community-owned value system (Deegan, 2014; Gray et al., 1995). These statements indicate that organizations strive to generate social value through their actions, aligning with the societal norms within the social system. As part of this system, the organization's legitimacy hinges on the alignment between these systems. However, when there is a discrepancy between the two, it poses a threat to the company's legitimacy.

Financial Pressure

Financial pressure is the pressure on the company to fulfill its obligations. Using the debt ratio allows as a proxy for external financing motivation demand. Leverage is often used in the literature as a proxy for proximity to the agreement and which relates to the existence and strict requirements (Spathis, 2002).

Firm Size

Firm size denotes the scale of a company in terms of total assets, sales volume, and market capitalization. According to legitimacy theory, larger corporations tend to have greater visibility in their operations compared to smaller firms, leading to demands and pressures increase from stakeholders and the public. Luo et al. suggest that big companies face significant pressure from both the public and stakeholders, who hold high expectations regarding management practices (Luo et al., 2012).

Violation of the Financial Regulations

Violations of financial regulation in terms of definition as financial statement fraud are both driven by intentional motives with profit orientation (Rezaee & Riley, 2010).

Financial performance

The financial statements are prepared to meet common needs, financial statements are a manifestation of the legitimacy of users of financial statements that require financial performance information (Deegan, 2014). On that basis, Bapepam (OJK) as the body responsible for the supervision of capital markets and financial institutions through financial regulation encourages the presence of financial performance information that meet the qualitative characteristics of financial statements, such as understandability, relevant, reliability, and comparability to be useful as a basis for making decisions for business people.

Environmental Impacts

Environmental impact refers to the inclusion of environmental-related information within the company's annual report (Suratno et al., 2006). This form of disclosure is categorized into two types: voluntary disclosure and mandatory disclosure. Environmental information disclosure falls under voluntary disclosure, providing companies with the option to choose whether or not to disclose their environmental information (van de Burgwal & Vieira, 2014). Environmental impact is a manifestation of corporate social responsibility.

Disclosure of CSR

Although disclosure of financial information is the main tool used in generating economic decisions. However, within accounting literature, the disclosure of CSR has changed to serve as a foundation for economic decision-making, placing greater emphasis on CSR disclosure (Deegan, 2014). The demands of CSR disclosure are caused by the emergence of public awareness and other stakeholders on the importance of business responsibility for the environment in order to achieve sustainability of human civilization in the future which later developed and known as triple bottom line (economic, environmental, And social performance) (Deegan, 2014; Gray et al., 1995; Guthrie & Parker, 1989).

Previous Research

This study builds upon previous research carried out by Belkoui & Karpik, Patten, Hackston and Milne, Deegan et al, Bebbington et al, Lanis and Richardson, Jamal, and Burgwal and Vieira. (Belkaoui & Karnik, 1989; Deegan et al., 2002; Jamal Zeidan, 2012; Lanis & Richardson, 2013; Patten, 1991; van de Burgwal & Vieira, 2014).

Corporate CSR is influenced by several factors, according to Signaling theory, the company gets the impetus to disclose information to external parties, and one of the motivations is the company looks good by the stakeholders to get a positive response despite the company's less favorable financial condition as indicated by financial pressure, violation of financial regulations, financial performance, and environmental impact.

[Figure 1 Framework]

The Effect Violations of Financial Regulations on Financial Performance

The theory of legal compliance, tend to agree that individual behavior is largely determined by the conditions in which they interact. However, basically all have the same goal of maximizing profit or profit. It also applies in the business world, corporate managers tend to focus on the size of their company's profit with a spirit of self-interest and opportunistic in fulfilling the desire (Deegan, 2014; Watts & Zimmerman, 1990). Managers will dare to violate the rules set by the government or related bodies in order to maximize the profits of their business (Watts & Zimmerman, 1990). Especially if the institution that supervises the rules the effectiveness of its supervision is still low and the preference for its justice is still questionable.

H1: Violations of the Financial Regulation affect the financial performance.

The Effect Financial Performance, Financial Pressure, Firm Size Environmental Impacts

Profitability is often used as a benchmark of company performance. Companies that have high profitability are considered to have good corporate performance. Presently, the company's achievements are evaluated not solely by its financial performance, but also by its commitment to fulfilling its environmental social responsibilities. The theory of legitimacy states that at the time of high profit margin then the company will choose not to give social and environmental performance information because The company deems it unnecessary to disclose information that may jeopardize its success. When the profit margin is slim, it's anticipated that the company will improve its environmental practices and openly disclose them to attract investor attention. (Gibson & O'Donovan, 2007). Belkaoui and Karpik stated that a high profit company does not need to make social disclosure because it will have an impact on competitive losses by incurring additional costs for disclosure (Belkaoui & Karnik, 1989).

Leverage can be used to increase returns on stocks, but will increase the company's losses at the time of loss. Leverage is determined by the book value proportion of debt to total assets or the overall value of the firm. Anggraini's study on the disclosure of social information and its influencing factors in annual reports revealed a negative correlation between leverage and the disclosure of corporate social information in the company's annual reports (Reni & Anggraini, 2006). While Simanjuntak and Widiastuti obtained a positive result between leverage with completeness of corporate financial statement disclosure (Simanjuntak & Widiastuti, 2004). According to Riahi Belkaoui, there exists a counter correlation between social disclosure and the financial leverage degree. This implies that as debt to capital ratio increases, the level of social disclosure decreases (Jones & Belkaouli, 2010).

Research conducted by Burgwal and Vieira states that firm size affects the Environmental Impact. Larger corporations are likely to possess greater levels of information compared to smaller entities (van de Burgwal & Vieira, 2014). This aligns with stakeholder theory, which asserts that stakeholders possess the ability to influence the allocation of the company's resources. Large corporate interactions with the public tend to be more and have significant economic and organizational impact. Large companies are more visible to the media, policymakers, regulators and society, making the company face political pressure and get stricter regulations from external parties in order for companies to be more concerned with environmental issues including in environmental disclosure (Brammer et al., 2006). According to legitimacy theory, larger corporations tend to engage in more visible activities than smaller ones, resulting in greater demands and pressures from the public. This makes the big companies more sensitive to environmental issues.

H2: Financial performance affects the Environmental Impact.

H3: Financial Pressure Affects the Environmental Impact.

H4: Firm Size affects Environmental Impact.

The Effect Violations of Regulation of Finance, Financial Performance, Financial Pressure, Firm Size, Environmental Impact On Disclosure of Social Responsibility

The theory of legitimacy suggests that companies will strive to obtain approval from society to ensure the sustainability of their business operations, even if they have committed transgressions (Deegan, 2014). Based on signal theory, the company is able to increase the value of the company using several tools, such as the disclosure of CSR. Several prior studies have also identified certain companies attempting to shift public attention away from corporate law issues or violations by increasing the disclosure of CSR information in their annual reports (Brown & Deegan, 1998; Deegan et al., 2002; Lanis & Richardson, 2013; Patten, 1991).

The legitimacy theory suggests that companies must endeavor to uphold their legitimacy among all stakeholders to ensure the sustainability of the company (Deegan et al., 2002; Gamerschlag et al., 2011; Guthrie & Parker, 1989). Generally, the companies effort to reach the commonality held by the public is to disclose the activities of the company's operations that have environmental social impact through media annual reports or advertising in other media (Deegan, 2014; Gamerschlag et al., 2011; Gray et al., 1995). Companies usually disclose more CSR in order to achieve societal expectations of the community and government around its business operations area to increase stakeholder confidence. (Bewley & Li, 2000; Islam & Deegan, 2010).

Financial pressures can reduce stakeholders' confidence in the company. Companies with elevated leverage ratios typically reveal a greater amount of information because the expenses associated with corporate agencies are greater for firms with such capital structures (Jensen & Meckling, 1976). Based on the theory of legitimacy, the company must be able to maintain its image to the stakeholders. Based on the signaling theory one way to increase stakeholder confidence is to provide a positive signal, one way is to use CSR disclosure. Therefore, companies experiencing financial distress will tend to increase CSR disclosure to improve their image.

Firm size will be used as the estimator variable in describing how various corporate annual report disclosures, because according to the agency theory, growing companies have substantial agency budgets in unpacking important information to reduce agency budgets. The research carried out by Kamil and Herusetya indicates that the size of the firm has a noteworthy positive impact on the disclosure of CSR (Kamil & Herusetya, 2012).

Verrecchia, through his discretionary disclosure theory, suggests that environmentally conscious companies believe that communicating their performance signifies positive news for market participants (Verrecchia, 1983). Hence, companies exhibiting strong environmental performance are expected to provide more extensive and higher quality environmental information compared to those with poorer environmental records. Such companies often utilize environmental performance and disclosure of related information to enhance the legitimacy of their corporate activities in the eyes of society. Al-Tuwaijri et al., in their research, discovered a notable positive correlation between environmental disclosure and environmental performance, findings that align with the theory (Al-Tuwaijri et al., 2004).

H5 : Violations of the Financial Regulation affect Corporate Social Responsibility Disclosure.

H6 : Financial performance affects Corporate Social Responsibility Disclosure

H7 : Financial Pressures affect Corporate Social Responsibility Disclosure.

H8 : Firm Size affects Corporate Social Responsibility

H9 : The Environmental Impact affects Corporate Social Responsibility Disclosure.

Based on previous theory and research from H1-H9, So that can be prepared the research hypothesis as follows:

H10 : Financial Performance mediates the influence of Financial Regulation Violations on Corporate Social Responsibility Disclosure

H11 : Environmental Impact mediates the influence of Financial Pressure on Corporate Social Responsibility Disclosure

H12 : Environmental Impact mediates the effect of Financial Performance on Corporate Social Responsibility Disclosure.

H13 : Environmental Impact mediates the effect of Firm Size on Corporate Social Responsibility Disclosure

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METHODS

For this type of qualitative research the method contains: 1. Research approach, for example an interpretive approach to phenomenology, explain why you use this approach, relate it to the research focus; 2. Types and sources of data, explain in detail the type of data used, how the data was obtained and why the data was used; 3. Data analysis techniques, explain the data analysis techniques that have been carried out in detail according to the selected research approach. For this type of quantitative research, the method contains: 1. the type of research, explain in detail the type of research and why it is relevant to answer the research objectives, for example experimental research; 2. Research variables, measurement variables; 3. Research data, describe the sample, types and sources of data; 3. Data analysis techniques, explain the data analysis techniques used to answer the research objectives. For conceptual article manuscripts, you can use a scoping review approach or a systematic review. If there is a table placed in the attachment with information such as:

Population and Sample

The population for this study includes all companies listed on the Indonesia Stock Exchange (IDX) during the period 2010 to 2013. These companies are monitored for compliance with financial regulations issued by Bapepam (now OJK).

The research employs a purposive sampling method to select the sample. The criteria for inclusion are: Companies classified as non-financial corporations.Companies found to have violated financial regulations and received sanctions from Bapepam (OJK) during the 2010-2013 period.

This sampling method ensures the selection of companies relevant to the study's objectives, focusing on the relationship between financial regulation violations and corporate social responsibility disclosure.

Variables and Operational Definition of Variables

Disclosure of Corporate Social Responsibility

The variable for CSR disclosure utilized indicators from research conducted by Hackston and Milne, Haniffa and Cooke, and Lanis and Richardson, all of which are aligned with the social information category as per the Global Reporting Initiative GRI (Global Reporting Index) version 4.0 (Hackston & Milne, 1996; Haniffa & Cooke, 2005; Lanis & Richardson, 2013).

$$(CSRD) = \frac{Total\ amount\ of\ disclosure\ CSR}{Maximum\ disclosure\ score}$$

Environmental Impacts

The development of the company's environmental impact proxy was adopted from the Gamerschlag et al study (Gamerschlag et al., 2011).

[Table 1 Environmental Impacts of the Company]

Financial Performance

Much of Literature and previous research proxy ROE as a proxy of measures of corporate financial performance in addition to ROA (Baucus & Baucus, 1997; Deegan et al., 2002; Gamerschlag et al., 2011; Jamal Zeidan, 2012; Lanis & Richardson, 2013).

$$ROE = \frac{Net\ Income}{Total\ equity}$$

Rate of Financial Regulation Violation

The proxy for the extent of financial regulation violations is the total annual sanctions imposed on companies in the form of penalties, measured in Rupiah value, as provided by Bapepam (OJK).

Financial Pressure

The proxy financial pressure by leverage represents the proportion of total debt to total assets owned by the firm. This is done to determine the funding decision made by the company.

$$LEV = \frac{Total\ Debt}{Total\ Asset}$$

Firm Size

Firm size is illustrated by the logarithm of the company's natural assets.

$$Size = Ln\ (Total\ Asset\ )$$

Data Analysis Method

This research will use path analysis technique. Path analysis is particularly useful when testing hypotheses about mediating relationships.

KK = α + β1 PPK + e_1 (Equation 1)

DL = α + β1 KK + β2 TK + β3 UP + e_2 (Equation 2)

CSR = α + β1 PPK + β2 KK + β3 TK + β4 UP + β5 DL + e_2 (Equation 3)

Where:

PPK : Violation of the Financial Regulation set by Bapepam

KK : Corporate Financial Performance

TK : Financial Pressure

UP : Firm Size

DL : Environmental Impact

CSR : Disclosure of Corporate Social Responsibility

RESULTS AND DISCUSSION

The presentation of the results must be clear and concise. The results should summarize the findings (scientific) rather than provide data in great detail. The citation must be in the APA format, for example: (Ahmadjayadi, 2003). Please highlight any differences between your results or findings and previous publications by other researchers.

Tables and Figures are presented centrally, as shown below and quoted in the manuscript.

Discussion discussions should explore the importance of research or writing results, not repeating them. The combined Results and Discussion sections are often appropriate. Avoid widely published literature citations and discussions.

This study includes classical assumption test (normality test, multicolonierity, autogeneration, heteroscedasticity and linearity) and hypothesis test (test of determination coefficient, F test and t test), then discussed about hypothesis test result Presented in table 2

Substructure Analysis

$$KK = \alpha + \beta 1\ PPK + e_1 \quad \text{(Equation 1)}$$

$$DL = \alpha + \beta 1\ KK + \beta 2\ TK + \beta 3\ UP + e_2 \quad \text{(Equation 2)}$$

$$CSR = \alpha + \beta 1\ PPK + \beta 2\ KK + \beta 3\ TK + \beta 4\ UP + \beta 5\ DL + e_2 \quad \text{(Equation 3)}$$

[Table 2 Hypothesis Test Results]

Based on Table 2 the magnitude of the influence of Financial Regulation Violation against Financial Performance is 0%. The magnitude of the effect of Financial Performance, Financial Pressure and Firm Size on Environmental Impact simultaneously is 20.8%. The magnitude of the influence of violation of Financial Regulation, Financial Performance, Financial Pressure, Firm Size and Environmental Impact on Corporate Social Responsibility Disclosure simultaneously is 65,9%.

The F test shows F value count 6, 976 with Sig. 0,000 (Equation 2) and 23,456 with Sig. 0,000 (Equation 3), As the probability value of significance is significantly lower than 0.05, it indicates that the model is valid and accurate.

The result of statistic test t in table 2, for equation 1, Violation of Regulation of Finance is not significant due to the value is above 0,05 that is 0,319. So that means the violation of the Financial Regulation does not have effect on Financial Performance.

Equation 2, Firm size is significant that is below 0,05 0.000. Thus, it can be inferred from the three independent variables in regression model equation 2 that one of the independent variables, namely Firm Size, influences the dependent variable, Environmental Impact.

Equation 3, Firm Size and Environmental Impact is significant with the value below 0.05 ie 0,000 and 0.001. So it can be concluded the regression model in equation 3, there are two out of five independent variables, namely Firm Size and Environmental Impact that affect the dependent variable of CSR Disclosure.

Testing of Mediation Variables

[Figure 2. Causal Step Strategy]

Coefficient significancy of a and b are sufficient to indicate the presence of mediation. If c is significant then there is partial mediation, but if c is not significant then there is full mediation.

[Table 3 / Test Result Causal Step]

Based on Table 3 it means that the environmental impacts mediate the effect of Corporate Size on CSR Disclosure.

The Effect of Violation of Financial Regulation on Financial Performance.

Violations of the Financial Regulation have no effect on Financial Performance. The findings of this study do not match the explanation of the compliance theory of business compliance presented by Freedman (Freedman, 2003). According to Freedman, business rules are present for the achievement of market efficiency so that if the regulation is violated it will have an impact on the degradation of the performance of violating business entities. But if examined from the other side, these findings can be an evaluation tool of the effectiveness of financial regulations. By still relying on the opinion of Freedman, if a financial regulation is unable to achieve its objectives then it can be said that the financial regulation is not going well and effective (Freedman, 2003). This aligns with the opinion of Langus and Motta, and Zeidan that temporal study and evaluation must be conducted on the effectiveness of the regulation of the supervisory institution so that the mandate of the mandate can be implemented effectively and achieve its objectives (Aguzzoni et al., 2013; Jamal Zeidan, 2012). This coincides with the findings of Jamal's research, which concluded that there is no impact of violations of banking financial regulations on banking financial performance (Jamal Zeidan, 2012).

The Effect of Financial Performance on Environmental Impacts.

Financial performance has no effect on environmental impact. Companies that have high profitability are considered to have good performance. But the success of the company is not judged only through financial performance alone but rather how the company performs its social responsibility to the environment. This is different from the theory of legitimacy, when the high profit margin then the company will choose not to report social and environmental performance information because The company deems it unnecessary to disclose information that could potentially disrupt its success. If the profit margin is low then the company is expected to perform better environmental performance and disclose it in order to attract investor interest in the company (Gibson & O'Donovan, 2007). Belkaoui and Karpik stated that a company with high profitability does not need to make social disclosure because it will have an impact on competitive losses by incurring additional costs for disclosure (Belkaoui & Karnik, 1989). This indicates that companies in Indonesia have not considered financial performance as a thing to be hidden.

The Effects of Financial Pressure on Environmental Impacts.

Financial pressures do not influence environmental impact. The outcomes of this research diverge from prior studies, which provided empirical evidence suggesting that a higher debt-to-capital ratio leads to lower social disclosure, as found by Riahi Belkaoui (Jones & Belkaouli, 2010). This suggests that companies in Indonesia have not viewed their debt ratio as something to conceal through the portrayal of a positive corporate image in the company's social report.

The Effect of Firm Size on Environmental Impacts.

The size of the firm impacts CSR disclosure. This discovery corresponds with the results of the study undertaken by Burgwal and Vieira, which assert that firm size affects environmental impact. Bigger companies typically possess more information compared to smaller ones (van de Burgwal & Vieira, 2014). Stakeholder theory posits that stakeholders have the chance to influence the allocation of the company's resources. Large corporate interactions with the public tend to be more and have significant economic and organizational impact. Large companies are more visible to the media, policymakers, regulators and society, making the company face political pressure and get stricter regulations from external parties in order for companies to be more concerned with environmental issues including in environmental disclosure (Brammer et al., 2006). Based on the legitimacy theory, larger companies engage in more visible activities compared to smaller ones, resulting in greater demands and pressures from the public. As a result, larger companies tend to increase their responsiveness to environmental concerns.

The Effect of Code Violations on Corporate Social Responsibility Disclosure.

The violation of financial reporting has no effect on CSR disclosure. This result is different from the research of Lanis and Richardson which states that the violation of financial reporting influences CSR disclosure (Lanis & Richardson, 2013). This difference may be due to differences in research sites, where the research was conducted at companies in Australia (Lanis & Richardson, 2013). The findings of this study diverge from the signaling theory, which suggests that CSR disclosure serves as a means for companies to cultivate a favorable image among stakeholders. This can be attributed to the fact that companies in Indonesia do not consider the violations committed to damage the company's image, because information about the violation is difficult to obtain by the general public.

The Effect of Financial Performance on CSR Disclosure

Financial performance does not influence CSR disclosure. This finding is in line with studies conducted by Patten and Hackston & Milne, which similarly demonstrate that financial performance does not impact corporate social responsibility disclosure (Hackston & Milne, 1996; Patten, 1991). These results differ from the theory of legitimacy that states that companies must perform social responsibility to account for its business and maintain its image. This can be attributed to the fact that the company has not yet considered the importance of disclosure of social responsibility even though the company has a profit.

The Effect of Financial Pressure on CSR Disclosure.

Financial pressures do not influence CSR disclosure. The outcomes of this study contrast with certain prior research findings, which suggest that high leverage tends to prompt companies to disclose more CSR information to uphold their image in the eyes of lenders and other stakeholders (Clarkson et al., 2008; Lanis & Richardson, 2013). This suggests that companies in Indonesia have not regarded the level of debt ratio as a factor to conceal through the presentation of a positive corporate image in their corporate social responsibility disclosure reports. On the other hand, it also illustrates the absence of pressure from creditors regarding the issue of CSR disclosure so that the company does not consider it is needed to make a focus change or improve corporate image through the disclosure of CSR.

The Effect of Firm Size on CSR Disclosure

The firm size influences the disclosure of corporate social responsibility in contravention of Bapepam's financial regulations (OJK). The legitimacy theory states the bigger the size of a company then it tends to be the greater effort made to achieve community legitimacy. One of them is by expressing corporate social responsibility (Deegan, 2014; Lanis & Richardson, 2013). This suggests a rise in CSR disclosure. The findings of this study align with the research outcomes of Gamerschlag et al., Luethge & Han, and Lanis and Richardson (Gamerschlag et al., 2011; Lanis & Richardson, 2013; Luethge & Han, 2012). The researchers also add, the bigger the size of a company it has the ability to finance disclosure of CSR for the better.

The Effect of Environmental Impact on CSR Disclosure.

The environmental impacts affect the disclosure of CSR that violates financial regulations. The theory of legitimacy states the greater the environmental impact that a company operates on, the greater the legitimacy that the company should take care of. By way of carrying out social responsibility and disclosing it (Deegan, 2014; Gamerschlag et al., 2011). This finding aligns with those of Gamerschlag et al which also applauds the widespread influence of corporate environmental impact on CSR disclosure (Gamerschlag et al., 2011). It then indicates the extent of the environmental impact of companies violating financial regulation in accordance with the disclosure of its social responsibilities due to the increasing number of activities involved in the corporate environment that must be accountable to all stakeholders.

The Role of Financial Performance and Environmental Impacts as Mediator

The causal step test indicates that Environmental Impact solely mediates the relationship between Company Size and Corporate Social Responsibility Disclosure, whereas the Financial Performance variable does not mediate the impact of financial regulation violations on Corporate Social Responsibility Disclosure.

CONCLUSION

This study concludes that financial pressures significantly influence financial regulation violations, company size affects environmental impact, and both factors impact CSR disclosure, with environmental impact mediating the relationship between company size and CSR disclosure. The findings contribute to legitimacy and signaling theories, demonstrating how CSR disclosures and environmental responsibility enhance corporate legitimacy and stakeholder trust. Practically, Bapepam (OJK) should conduct periodic revisions of financial regulations, enforce stricter compliance measures, and introduce CSR guidelines emphasizing environmental accountability. Corporations are encouraged to integrate environmental impact assessments into strategic planning, adopt transparent CSR disclosures, and prioritize training on the interplay of environmental responsibility, company size, and CSR to strengthen Good Corporate Governance.

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Conflict of Interest Statement: The authors declare that the research was conducted in the absence of any commercial or financial relationships that could be construed as a potential conflict of interest.

LIST OF TABLES

TABLE 1 / *Environmental Impacts of the Company*

Type of Industries	The value of the Company's environmental impact
Agriculture / plantations	7
Mining	6
Basic chemistry	5
Raw material	4
Food	3
Construction / Infrastructure	2
Trade / Services	1

Source: Developed for this study

TABLE 2 / *Hypothesis Test Results*

Adjusted R Square	Equation 1		0,000
	Equation 2		0,208
	Equation 3		0,659
F Test	Equation 2	F	6,976
		Sig	0,000
	Equation 3	F	23,456
		Sig	0,000
T Test	Equation 1	Sig.PPK	0,319
	Equation 2	Sig.KK	0,544
		Sig.TK	0,930
		Sig.UP	0,000
	Equation 3	Sig.PPK	0,616
		Sig.KK	0,481
		Sig.TK	0,134
		Sig.UP	0,000
		Sig.DL	0,001

Source: Data processed

TABLE 3 / *Test Result Causal Step*

Variabel	a	b	c	c’
Sig. PPK With mediation KK	0,3194	0,2926	0,3122	0,2543
Sig. KK With mediation DL	0,4139	0,0000	0,2267	0,3608
Sig. With mediation DL	0,9645	0,0000	0,0066	0,0017
Sig. UP With mediation DL	0,0026	0,0000	0,0000	0,0000

Source: Data processed

LIST OF FIGURE

FIGURE 1/ *Framework*

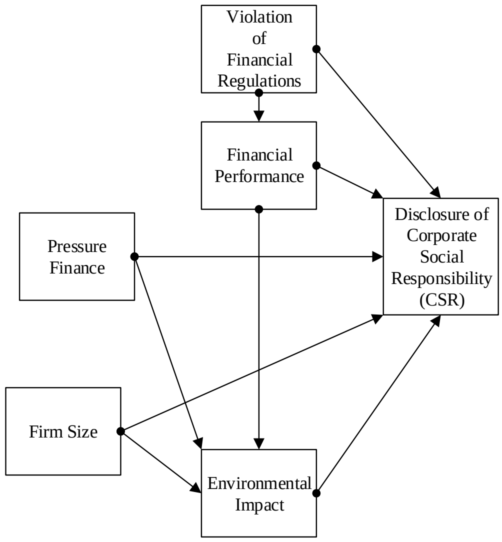

FIGURE 2 / *Causal Step Strategy*