Violation regulation of financial services authority (FSA), financial performance, and corporate social responsibility disclosure

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A B S T R A C T

So far, there has been a bureaucracy reform and implementation of new regulations for good governance capital markets. However, policy violations are still frequent. For example, cases of violation of financial regulations leading to fraudulent financial reporting occurred in several companies listed on the Indonesia Stock Exchange. This study aims to examine the empirical facts related to the legitimacy theory within the scope of violation of financial regulation, financial performance and social responsibility disclosure of non-financial companies in Indonesia Stock Exchange. The data were obtained from the Indonesia Stock Exchange. There were 24 non-financial violator-companies of financial regulation chosen as the sample. These data, in relation to the research hypotheses, were analyzed by using a path analysis test. The result showed there were no significant effect of the violations of financial regulations on financial performance and the level of corporate social responsibility disclosure. Therefore, this study confirms legitimacy theory in different forms.

A B S T R A K

Sejauh ini sudah ada reformasi birokrasi dan penerapan peraturan baru untuk good governance di pasar modal. Namun, masih banyak ditemukan beberapa pelanggaran kebijakan. Penelitian ini bertujuan untuk menguji fakta-fakta empiris yang berkaitan dengan teori legitimasi dalam lingkup pelanggaran regulasi keuangan, kinerja keuangan dan pengungkapan tanggung jawab sosial perusahaan non-keuangan di Bursa Efek Indonesia. Data penelitian diperoleh dari Bursa Efek Indonesia. Ada 24 perusahaan non-keuangan pelanggar regulasi keuangan yang dipilih sebagai sampel. Analisis hipotesis penelitian diuji menggunakan analisis jalur. Hasil penelitian ini menyatakan bahwa tidak terdapat pengaruh pelanggaran peraturan keuangan terhadap kinerja keuangan dan tingkat pengungkapan tanggung jawab sosial perusahaan. Penelitian ini ingin menegaskan dalam bentuk yang berbeda dari teori legitimasi.

1. INTRODUCTION

Although there has been a bureaucracy reform and implementation of new regulations for good governance in Indonesia capital market, policy violations are still frequent. For example, the cases of violation of financial regulations that lead to fraudulent financial reporting occurred in several companies listed on the Indonesia Stock Exchange. As found by Bapepam-LK (Capital Market Supervisory Agency and Financial Institutions), which today has been renamed the Financial Services Authority (FSA), some companies have done their accounting records which are not complied with the prescribed rules, and even tend to lead to fraud and this is resulted in penalties to the company (Ansar 2013).

The above condition attracts the researchers to view the accounting using the legitimacy theory. According legitimacy theory, the company can only maintain its business operations if their legitimacy of the public and the government, by means, abide by the rules and norms of the place (Deegan 2007).

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As referred to this theory, some researchers have been using the legitimacy theory analysis. They found that companies that do not follow or violate a rule or norm they operate; tend to distract the pubic by using media such as annual reports, especially related to the disclosure of information corporate social responsibility. This phenomenon today become a factor of economic decision making for investors, consumers, governments, and other stakeholders (Islam and Deegan 2010; Gamerschlag et al. 2010; Lanis and Richardson 2013). It was intended that the company can avoid the assumption that violates the rules or norms so that they can maintain their good image (Deegan et al. 2002; Lanis and Richardson 2013).

For special case in Indonesia, after the 1998 reform, this is in line with rising public expectations to achieve good governance, effective-efficient capital markets and increase the social responsibility of companies. Bapepam-LK (FSA) cleans up to present and revise financial regulations governing the company that has gone public in Indonesia. Furthermore, the relevant disclosure of corporate social responsibility in Indonesia, it should be based on Law No. 40 of 2007. For example, Bapepam-LK (FSA) as the supervisory authority of the capital market has strengthened the disclosure obligation of corporate social responsibility to issue regulations concerning XK6 Company's Annual Report Submission public in August 2012 that binds all companies listed on the capital market (BEI) to convey the corporate social responsibility in their annual report. Based on the span of the publication, this regulation has not yet been long enough and the rules are not clearly to regulate the need to be disclosed. This can be assumed that the firms in Indonesia are still expressing corporate social responsibility voluntarily. It can be used to shift the public focus from other regulations they have violated order to maintain the company image (Deegan et al. 2002; Bebbington et al. 2008; Lanis and Richardson 2013).

On the contrary, now there are studies with limited evidence to support the legitimacy theory as explanatory of the relationship between the actions of management and disclosure of corporate social responsibility (Wilmshurst and Frost 2000; Deegan et al. 2002; Bebbington et al. 2008; Lanis and Richardson 2013), The study also focuses on seeing a direct relationship between the actions of breach of the rules and the level of disclosure of corporate social responsibility. It would not see the connection between the act of violation of the regulations and the level of the company's financial per-

formance in advance which generally becomes the main reference (public concern) market participants and other stakeholders in assessing a company (Zeidan 2012). Besides, the relation between the level of financial performance of companies and disclosure of corporate social responsibility as things are interrelated in business decision-making in the middle of the awareness of the importance of environment sustainability in this period (Gamerschlag et al. 2010).

Furthermore, some previous studies about the effect of the level of violations of financial regulations and the level of the company's financial performance have not found yet mixed results. For example, Baucus and Baucus (1997) in America, Langus and Motta (2007) in Europe both found empirical evidence that there is a negative influence between violations of financial regulations and the company's financial performance. Yet, Zeidan (2012) found no empirical results on the effect of the level of violations on the financial regulations and financial performance in the American banking industry.

Various results were also found in studies examining the correlation between the financial performance of companies and disclosure of corporate social responsibility. Gamerschlag et al. (2010) in Germany have found that there is a positive influence between the level of financial performance and the level of disclosure of corporate social responsibility. Thus, it is similar to the findings Darus et al. (2013) in Malaysia. On the other hand, Luethge and Han (2012) found no effect between the company's financial performance levels and the level of disclosure of corporate social responsibility in China. The same thing was found by Lanis and Richardson (2013) in Australia.

In reference to the previous studies, by Wilmshurst and Frost (2000), Deegan et al. (2002), and Lanis and Richardson (2013), the empirical results were not consistently associated with the explanation about the effect of violations of rules or norms and the level of disclosure of corporate social responsibility. Also on the inconsistency of research findings, it was related to the influence of violations of financial regulations and the degree of financial performance (Baucus and Baucus 1997; Langus and Motta, 2007; Zeidan 2012). It is also the influence of the company's financial performance levels on the level of disclosure of corporate social responsibility (Luethge and Han, 2012; Lanis and Richardson, 2013; Gamerschlag et al. 2010; Darus et al. 2013). Furthermore, This study focuses on the overall effect of violations of financial regulations of the

company on the level of financial performance (Zeidan 2012) and the level of disclosure of corporate social responsibility (Luethge and Han, 2012; Lanis and Richardson, 2013; Gamerschlag et al. 2010; Darus et al. 2013) still has some limitations, and space for further testing, particularly related to the observation of the effects of violations of financial regulations on the level of financial performance and the level of disclosure of corporate social responsibility in different countries. This is in line with legitimacy theory which asserts that some legitimacy on companies rely heavily on geographical and socioeconomic factors where the company operates (Deegan 2007).

The study finally studied the development of research Lanis and Richardson (2013), Zeidan (2012), and Gamerschlag et al. (2010) by taking a sample of companies in Indonesia listed in the Indonesia Stock Exchange. This is intended to analyze the effects of violations of financial regulations Bapepam or the FSA (Financial Services Authority) on the financial performance and the level of disclosure of corporate social responsibility in order to assess the implications of the theory of legitimacy in the Indonesian capital market.

2. THEORETICAL FRAMEWORK AND HYPOTHESES
Legitimacy Theory
Legitimacy theory in accounting is understood as explanatory for the actions of an organization in maintaining business actions and the organization's image with the value system held by the public (Gray et al. 1995; Deegan 2007). Thus, it can be seen that the organization can create social values in its activities in accordance with the norms prevailing in the social system. This is because of the organization that is part of the system. Alignment between the two systems can form the legitimacy of the company.

Alignment of values between those in the community and as embraced and held by companies is very important. The measures the difference in value between the company and the community can lead to legitimacy gap and would threaten the company's going concern. However, the company can change the social values that exist or the perception of the company as a tactic legitimacy in several ways as it tries to perform an operation that is responsible (lawful) or find loopholes in the law to be violated (Lanis and Richardson 2013), conduct related disclosures operating activities of companies that have a social impact (Gray et al. 1995) and even up to lobby lawmakers that the law does not

interfere with their business activities (Hadi et al. 2012).

Social Context behind Legitimacy Compliance with Financial Regulations, Disclosure of CSR
There is interrelation between social context, the role of the State, individuals and social groups (Fakih 2001). Thus, the study should focus on understanding the disclosure of a company viewed in relation to individuals, social groups, and the countries where the companies operate (Gray et al. 1995). This is even up to other stakeholders such as shareholders, creditors, and communities across the country (Global Society). On this basis, it is understandable why financial regulations that aims to create efficiency and effectiveness of the present market and are obliged to follow. When the rule is broken it creates a negative impact on the company performance as a whole (Zeidan 2012).

Furthermore, having a compliance with financial regulations, disclosure of financial performance and corporate social responsibility is an example of a form of interaction between the company and all stakeholders who affect the performance of the company (Gray et al. 1995; Deegan 2007). In particular, they should obtain and maintain the legitimacy of the social and economic impacts of the social environment in which it operates (Gray et al. 1995; Deegan 2007).

Hypothesis Development
1. The relationship between the level of Abuse Financial Regulations and Financial Performance
Some previous studies found inconsistent results in assessing the relationship between the degree of violation of financial regulations and the company's financial performance. For example a study Baucus and Baucus (1997) found violations of financial regulations made by companies in the United States negatively affect the value of the company's financial performance. It was proxied by the ROA and ROE. This is in line with the research by Langus and Motta (2007) in Europe which found violations of financial regulations negatively affect the company's stock price. However, Zeidan (2012) found different results, so did Baucus and Baucus (1997) and (Langus and Motta 2007), with the different objects of their studies that are in American banks. They found violations of financial regulations have no effect on the value of financial performance proxied by the ROA and ROE in banking in America. Thus, it affects an assessment of the correlation between violations of financial regula-

tions and the company's financial performance that needs reviewing theoretically.

Using ROA and ROE proxies as an indicator of financial performance has some reasons. For example, ROA was selected on the basis of its ability to reflect the ability of the company earned profits compared to the assets owned by the company (Lanis and Richardson, 2013; Palepu et al. 2010). In other words, the financial information generated by the financial statements is capable as reflected in the sample. Likewise, it used ROE and ROA as an indicator of a company's ability to generate profits through the company's capital (Mahoney and Roberts, 2004; Zeidan 2012). On that basis, ROA and ROE then be excellent for other stakeholders because the ROA can provide an overview of the three main aspects, namely (1) The Company's ability to generate profit (profitability) (2) The efficiency of the company in managing the asset (asset management) (3) The company's ability to pay the debt (financial leverage) (Palepu et al. 2010). Furthermore, from different angles, ROE and ROA are deemed able to describe financial regulations that bind the company effectively (Baucus and Baucus 1997; Zeidan 2012). The value of financial performance in the financial statements, including one of the instruments is affected by the financial regulations (Deegan 2007; Zeidan 2012) with the consequence of compliance with financial regulations. This can increase the value of ROA and ROE and vice versa violations of financial regulations will reduce the value of ROA and ROE companies based on the assumption that the benefits of adherence to the law (Tyler 1990; Zeidan 2012).

Due to the above arguments, the topic of financial regulation it is essential to study in Indonesia with the social environment and the context of different problems with earlier studies. Thus, the hypothesis can be stated as the following:
H1a: The act of violation of financial regulations set by Bapepam (FSA) negatively affects the company's financial performance as proxied by ROA.
H1b: The act of violation of financial regulations set by Bapepam (FSA) negatively affects the company's financial performance as proxied by ROE.

2. Relationship between Financial Performance and Disclosure of Corporate Social Responsibility

Legitimacy theory explains the company should strive to maintain its legitimacy in all stakeholders' point of view to have the sustainability so that the company can stay longer (Guthrie and Parker 1989; Roberts 1992; Deegan et al. 2002; Bewley and Y,

2006; Deegan 2007; Gamerschlag et al. 2010). Generally, the companies use its strategy to achieve compliance with the values embraced by the people. It is the disclosure related to operating activities of companies that have a social impact the environment through the medium of the annual report or advertising in other media (Gray et al. 1995; Deegan 2007; Gamerschlag et al. 2010). Disclosure of environmental social activity is highly influenced by the characteristics of companies, one of which is the ability of a company's profitability. The condition a company with high corporate profitability will likely have plenty of funds to conduct and disclose CSR (Gamerschlag et al. 2010).

In reference to such argument above, the government enacted the Law No. 40 of 2007. They revised the regulation X.K.6 by Bapepam (FSA). Disclosure of corporate social responsibility has officially become a public concern in Indonesia; the companies are required to show corporate social responsibility report, though with yet comprehensive guidelines. This causes the coverage of corporate social responsibility report is expected to be different based on the type, size, and performance results of the company.

Based on the above arguments, the next hypothesis can be stated as the following:
H2a: Financial performance represented by ROA has a positive effect on the level of disclosure of corporate social responsibility.
H2b: Financial performance represented ROE has a positive effect on the level of disclosure of corporate social responsibility.

3. The relationship between the level of Disclosure Violation of Financial Regulations and Corporate Social Responsibility

Legitimacy theory argues that the company tends to seek legitimacy from the community by continuing its business operations despite having committed an offense (Deegan 2007). Some previous studies also found some companies tried to divert the public's view and did not focus on the problem or violation of the law firm to disclose more information. For example, it is the information about corporate social responsibility in the annual report (Patten 1992; Brown and Deegan 1998; Lanis and Richardson 2013).

Such condition made the researchers interested in a social environment and lawlessness as the different objects such as Indonesia. They used these to test the theory of legitimacy and effectiveness of supervision of the capital market through the issuance of regulations. Thus, the hypothesis is stated
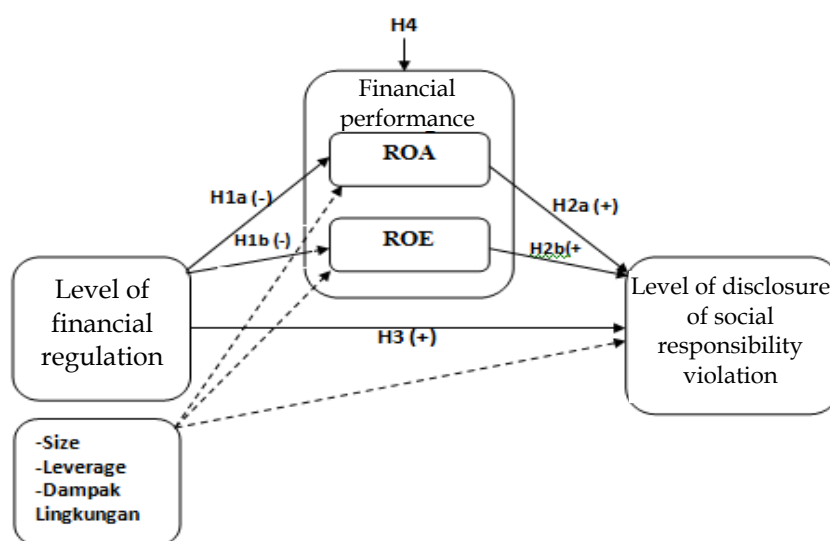
Figure 1
Theoretical Framework

Source: Developed for this study

as follows:
H3: The act of violation of financial regulations set by BAPEPAM (FSA) has a positive effect on the level of disclosure of corporate social responsibility.

4. Financial performance as a mediating variable in linking violations of financial regulations and disclosure of corporate social responsibility

The study used financial performance variables such as ROA and ROE. These two have been frequently used for the disclosure of corporate social responsibility (Brammer and Pavelin 2006; Islam and Deegan 2010; Gamerschlag et al. 2010; Luethge and Han, 2012; Lanis and Richardson 2013). Although sometimes, there are some different studies focusing on ROA and ROE as an independent variable, the study relates them with corporate social responsibility as the dependent variable. In theory of legitimacy, the greater the profitability of the company, the greater the ability of social accountability is leading to the disclosure of corporate social responsibility (Lanis and Richardson, 2013; Islam and Deegan 2010; Gamerschlag et al. 2010). Another time, ROA and ROE were placed as a dependent variable with corporate social responsibility as the independent variable. With this in mind as the guardian of legitimacy in the public eye, the better the corporate social disclosure will increase stigma in the eyes of the public and stakeholders that will lead to the sale of goods or services of a company that will lead to increased value of ROA and ROE (Smith 2003; Siregar and Bachtiar 2010; Criso'stomo et al. 2011).

Similar to this study, studies about violations of financial regulations or the effectiveness of the financial regulations also often used the ROA and ROE as the dependent variables. A premise states it is consistent with the theory of legal compliance (Deegan, 2007; Gray et al. 1995; Tyler, 1990; Sutinen and Kuperan 1999), the better a financial regulation it will culminate in the value of financial performance in accordance with the real condition of the company (Baucus and Baucus 1997; Langus and Motta, 2007; Zeidan 2012).

It is, thus, for further investigation, particularly when there is a relationship mediating between the ROA and ROE in testing the theory of legitimacy in different socio-economic conditions. Given the fact that violation of financial regulations, ROA, ROE, and the disclosure of corporate social responsibility are the products of the legitimacy of the socio-economic activities (Deegan 2007; Lanis and Richardson, 2013; Zeidan 2012). Thus the hypothesis is stated as follows:
H4: financial performance represented by ROA and ROE is the mediating variable in the effect of violations of financial regulations on disclosure of corporate social responsibility.

Based on the above theory and discussion, the theoretical framework in this study can be drawn in Figure 1.

3. RESEARCH METHOD
The observed variables were measured using a proxy from previous studies. It relates to which comprises of four main variables (exogenous- en

Table 1
Research Data Description

Sample	Total	Percentage
Non Financial sector Companies violating the financial regulation of BAPEPAM (FSA) (2010-2013)	31	100%
Companies did not publish their annual report in ISE or website (2010-2013)	7	22%
Total sample used per year of observation	24	78%

Table 2
Companies Violating Financial Regulation of Bapepam (FSA)

Types of Industries	Total	Percentage
Agriculture/ Plantation	1	4.17%
Mining	6	25%
Raw materials and Chemistry	1	4.17%
Automotives, textile, Electronic	6	25%
Food	1	4.17%
Construction/ Infrastructures/Property	3	12.50%
Trade and Service	6	25%
Total	24	100%

Source: Processed secondary data, 2015.

dogenous) and three control variables. The exogenous variable includes a variable whose value is determined outside the model. This is not subject to arrows that indicate the direction (Ghozali 2012; Ratmono and Solihin 2013). The exogenous variable is the degree of violation of financial regulations set Bapepam (FSA). The main proxy variable is the company's total annual sanctions in the form of fines in Rupiah value given by Bapepam (FSA) (Bapepam 2014). It assumes that the greater the fines imposed by Bapepam (FSA), the more the companies were in violation of financial regulations increasingly heavy. The following proxy was used in this study:

TPPK = the Value of IDR fined from the Bapepam (OJK)

The proxy was developed to get more valid for measuring the level of violations of financial regulations. It started by the limitations and suggestions from previous studies poxifying the violations of regulations or law firm by simply using a dummy variable (Langus and Motta, 2007; Lanis and Richardson, 2013; Zeidan 2012). Therefore, it is difficult to see the direct effect of a violation of laws or regulations of the company.

Endogenous variables are variables determined by the value of other variables in the model (subject to the direction arrows) (Ghozali 2012; Ratmono and Solihin 2013). The endogenous variable is financial performance represented by proxy ROA (Return on Assets) and ROE (Return on Equity) and the disclosure of corporate social responsibility. The endogenous for Financial Performance (ROA and ROE) are based on the literature and previous studies on financial performance and the

company's relation to the social performance of companies. ROA and ROE are often used as a proxy measure of financial performance of the company (Lanis and Richardson, 2013; Zeidan 2012). The basis of ROA and ROE is a direct indicator of the profitability of the company that reflects a company's ability to generate profits and can demonstrate the ability of the company's efficiency in managing the asset (asset management) and equity (Palepu et al. 2010). In addition, ROA and ROE are predicted to be able to describe the effectiveness of financial regulations that bind the company (Baucus and Baucus 1997; Zeidan 2012).

Based on the arguments above, the equation ROA (Return on Assets) and ROE (Return on Equity) used in this study is drawn in the following:

$$ROA = \frac{NetProfit}{Total\ Asset}. \tag{1}$$

$$ROE = \frac{NetProfit}{TotalEquity}. \tag{2}$$

ROA and ROE were used as the value of ROA and ROE in the same year with the occurrence of violations of financial regulations Bapepam (FSA). It was assumed that violations of financial regulations could reduce the value of financial performance in the same period (Zeidan 2012).

Endogenous variable that is the disclosure of corporate social responsibility adopted the research indicators by Said et al. (2009) and Lanis and Richardson (2013) and in line with the categories of social information according to GRI (Global Reporting Index) version 4.0 is composed of the environment, energy, health, and safety of labor, product, community involvement, and the public. A number of items disclosed the company was number 82

Table 3
Descriptive Statistics of Research Variables

	N	Min.	Maks.	Means	Std. Devi
TPPK (Rp)	96	0	1,000,000,000	82,645,833,33	154,929,320.33
ROA	96	-0.485	0.254	-0.01625	0.113283
ROE	96	-3.247	3.851	-0.02823	0.711736
CSRD	96	0.040	0.770	0.24531	0.168660
Asset (Rp) (.000.000)	96	51.660	74,653.257	10,382,746.12	18,117,718.85
SIZE (LnAsset)	96	24.668	31.944	28.49160	1.912192
LEV	96	0.006	0.966	0.47030	0.245700
DL	96	1	7	3.41667	1.966384

Source: Processed secondary data, 2015.

Note: The definition of variables: TPPK = Penalties in Rupiah value given by Bapepam (FSA); ROA = Net Income / Total Assets; ROE = Net Income / Total Equity; CSRD = number of items of CSR disclosure in the annual report; Assets = The real value of the company's assets; SIZE = natural logarithm of total assets; LEV = Total Debt / Total Assets; DL = The environmental impact of companies as measured by a score of 1-7, the bigger the score the greater the environmental impact.

Table 4
Outer Test Results of Weights after Bootstrapping

	Original Sample (O)	Sample Mean (M)	Std. Deviation (STDEV)	Standard Error (STERR)	T Statistics (|O/STERR|)
CSRD -> CSRD	5.960210	6.074986	0.584240	0.584240	10.201646*
DL -> DL	0.511217	0.516990	0.023903	0.023903	21.387547*
LEV -> LEV	4.091364	4.130474	0.216843	0.216843	18.867822*
ROA -> ROA	8.873796	9.168225	1.383076	1.383076	6.415987*
ROE -> ROE	1.412391	1.507783	0.378753	0.378753	3.729054*
SIZE -> SIZE	0.525705	0.532533	0.031094	0.031094	16.907138*
TPPK-> TPPK	0.000000	0.000000	0.000000	0.000000	2.331992*

Source: Output Smart PLS 2.0 M3 (2015).

Note:: *It uses significance value t-value at 5% (two-tailed p-values).

item consisting of the environmental category (34 items), categories of workers (16 items), Category Human Rights (12 items), the category of social (11 items), a product category (9 items). Next was the formula for the measurement of disclosure of corporate social responsibility, in the following:

$$N(CSRD) = \frac{Total\,of\,CSR\,Disclosure}{Maximum\,Score\,Disclosure}. \qquad (3)$$

Control Variables is company size (Size) with the equation, Size= Ln (Total of Company asset) Leverage (LEV= Total Debt/Total asset), and environmental impact of companies (DL) which is based on research (Gamerschlag et al. 2010) as well as the context of the industry in Indonesia as measured by a score of extensive environmental impact of the companies (Farm/plantation = 7; Mining = 6; the basic raw material/chemical = 5; Automotive/textiles/electronic = 4; Food = 3; Construction/infrastructure/property = 2; Trade/service =1).

The population was the registered companies in Indonesia Stock Exchange 2010-2013. Using purposive sampling, the sample was limited to non-financial companies violating the financial regula-

tions of Bapepam (FSA) as well as getting sanction from Bapepam (FSA) (Bapepam 2014), and publishing theirs annual report in a period of observation. As illustrated in Table 1 and Table 2.

This study used path analysis model to test the hypothesis. As developed, this study attempted to examine the feasibility of ROA and ROE as a mediating variable (intervening). It is in line with Ghozali (2012) finding the path analysis can be used to test the intervening variables (mediating). Furthermore, the hypothesis testing was conducted using the approach of Structural Equation Model (SEM) by using Software Partial Least Square (PLS). In accordance with Ghozali (2012), the choice of using the approach is based on the research model, which is quite complicated and requires testing the direct and indirect relationships between variables in a model. It can be used when the data cannot meet the assumptions of the classical linear, the number of data samples small, the missing value, and there is the problem of multicollinearity. Furthermore, the analysis stage needed to reach the conclusion of a study using the PLS approach consists of assessing the measurement mod

Table 5
Latent Variable Correlations

	CSRD	DL	LEV	ROA	ROE	SIZE	TPPK
CSRD	1.000						
DL	0.515	1.000					
LEV	0.356	0.174	1.000				
ROA	0.083	0.061	0.073	1.000			
ROE	-0.189	-0.206	-0.303	0.026	1.000		
SIZE	0.765	0.304	0.416	0.010	-0.041	1.000	
TPPK	0.183	0.147	-0.089	-0.063	0.047	0.122	1.000

Source: Output Smart PLS 3.0 M3 (2015).

Table 6
R-Square Test

	R Square
CSRD	0.692
ROA	0.013
ROE	0.136

Source: Output Smart PLS 3.0 M3 (2015)

el (outer model) and assessed the structural model (inner model) of a research model.

4. DATA ANALYSIS AND DISCUSSION
Descriptive Statistics
Table 3 shows the number of data that is 96 derived from the annual reports of 24 companies in the period 2010-2013. The overview describes the variable violations of financial regulations (TPPK) whaih have an average value of US $ 82,645,833.33 with a range of minimum value of USD 0, - up to Rp 1.000.000.000, - as the maximum value. Furthermore, ROA has an average value of -0.01625 (-1.62%), the minimum value of -0.485 (-48.5%) and the maximum value of 0.254 (25.4%). ROE has an average of -0.02823 (-2.82%), the minimum value of -3.247 (-324%) and a maximum value of 3,851 (385%).

The CSRD variable has an average value of 0.24531 (24%), the minimum value of 0040 (4%) and a maximum value of 0.770 (77%). Furthermore, the control variables used in this study as SIZE shows the average value of 28.49 (Rp 10,382,746,120,000), the minimum value of 24.668 (USD 51.66 billion, -) and a maximum value of 31.994 (USD 74,653,257,000,000). Leverage (LEV) has the average value of 0.4703 (47.03%), the minimum value of 0.006 (0.6%) and a maximum value of 0.966 (96.6%). Variable environmental impact (DL) has an average value of 3.4, the minimum value of 1 and a maximum value of 7.

Testing the Measurement Model *(Outer Model)*
Path analysis with observed variables using PLS

Smart program did not need to measure the model that directly estimates the structural model (Ghozali 2012). It was due to the formative construct, and then the evaluation of model measurements was done by the significance weight so that the validity and reliability of the construct were not required (Ghozali 2012). This is intended to acquire the significance of weight to go through the procedure of resampling (bootstrapping), with significant value that is used (two-tailed) t Value-is above 1.96 with the significance level of 5%(Ghozali 2012). In addition, according to Ghozali (2012) multicolinieriety test for formative constructs is absolutely necessary for calculating the tolerance. VIF recommended value is <10 or <5 and Tolerance value> 0.10 or> 0.20.

Smart Output PLS in Table 4 shows the value of weight after bootstrapping of the study construct variables totally get the significance value (t-value) above 1.96 (significance level = 5%). It can be concluded that the model is feasible for analysis using PLS SEM approach. Furthermore, the output smart PLS software 3.0 in Table 5 also shows the degree of the correlation between the independent variable with the correlation levels still below 95%, which means there is no serious multicolinearity.

Evaluating Structural Model *(Inner Model)*
The results of statistical output in Table 6 above shows that the value of R-Square is generated to describe the first model of the exogenous variables effect of -TPPK as well as a control variable (SIZE, LEV, and DL) against endogenous variable-ROA. It was 0.013 (1.3%) and the rest 98.7% affected by oth

Table 7
Path Coefficients (Mean, STDEV, T-Values)

	Original Sample	Sample Mean	Standard Error	T Statistics	P Values
TPPK->ROE	0.028	0.027	0.058	0.477	0.633
TPPK->ROA	-0.063	-0.080	0.084	0.756	0.450
TPPK->CSRD	0.070	0.068	0.062	1.130	0.259
SIZE->ROE	0.153	0.159	0.113	1.354	0.176
SIZE->ROA	-0.031	-0.023	0.136	0.277	0.820
SIZE->CSRD	0.669	0.668	0.042	15.744*	0.000*
ROE->CSRD	-0.110	-0.102	0.077	1.431	0.153
ROA->CSRD	0.067	0.072	0.046	1.450	0.148
LEV->ROE	-0.330	-0.335	0.151	2.180*	0.030*
LEV->ROA	0.069	0.064	0.141	0.488	0.626
LEV->CSRD	-0.002	0.004	0.069	0.025	0.980
DL->ROE	-0.199	-0.201	0.065	3.068*	0.002*
DL->ROA	0.067	0.050	0.121	0.558	0.577
DL->CSRD	0.275	0.275	0.054	5.123*	0.000*

Source: Output Smart PLS 3.0 M3 (2015).

Note: * It indicates a significance value of t-value at 5% (two-tailed p-values). Definition of variable: TPPK = Penalties in Rupiah value given by Bapepam (FSA); ROA = Net Income / Total Assets; ROE = Net Income / Total Equity; CSRD = number of items of CSR disclosure in the annual report; Assets = The real value of the company's assets; SIZE = natural logarithm of total assets; LEV = Total Debt / Total Assets; DL = The environmental impact of companies as measured by a score of 1-7, the bigger the score the greater the impact on the environment.

er variables outside of the first model of this study. Furthermore, the value of R-Square for explaining the second model is the exogenous variables effect of TPPK along with a control variable (SIZE, LEV, and DL) against endogenous variable-ROE for 0136 (13.6%) and the remaining 86.4% is affected by other variables outside the model in this research. Lastly, for a value of R-Square of the overall model of path analysis in this study, the value of 0.692 (69.2%) and the remaining 30.8% is affected by other variables outside this research model.

This study analyzed the path (Path Analysis) to determine whether there is an effect of exogenous variables on endogenous variables. The evaluation model (inner model) was made to see the significance value and the effect between variables through bootstrapping procedure (Ghozali 2012). In this study, the significance value is used (two-tailed) t-value> 1.96 (significance level = 5%). Table 7 illustrates the output of the t-statistics using Smart PLS 3.0 M3:

Testing the Effect of Financial Regulations Violation on the Corporate Financial Performance
The first hypothesis (H1) states there is a negative and significant effect between the levels of violations of financial regulations (TPPK) established by Bapepam (FSA) on the financial performance of companies represented by proxy ROA and ROE. Based on the analysis software of PLS in Table 7, it was found the level of violations of financial regu-

lations has a negative effect but not significant toward ROA. This is similar to the software that also shows PLS violations of financial regulations that has no significant or negative effect on ROE. On this basis, the first hypothesis (H1) was rejected.

This evidence did not directly correspond to the theoretical explanation of legitimacy and previous research (Zeidan 2012). According to Tyler (1990) and Baucus and Baucus (1997) and Zeidan (2012), the business rules are present in order to achieve market efficiency. By doing so, that if these rules are violated, will impact on the performance of business entities who commit violations. However, if examined from the other side, the finding can be a evaluation instrument of the financial regulation effectiveness. This is in line with Langus and Motta (2007) and Zeidan (2012) that must be carried out the study and evaluation of the effectiveness of temporal regulation. By doing so, the company's supervisory institutions regulatory mandate can be implemented effectively.

The result related to violations of financial regulations and their relation to financial performance can be sometimes different (Baucus and Baucus 1997; Langus and Motta, 2007; Zeidan 2012). Finally, this study shows no significant effect related to the level of violations of financial regulations on the financial performance of companies on the Stock Exchange. If observed carefully, this is similar to the explanation of legitimacy theory, which states that the social, economic, political, and

geography cannot be separated from the enactment of a form of legitimacy or regulation in a society or community (Deegan 2007; Fakih 2001). Therefore, this difference indicates the social, economic, political, and geographical condition in each research object.

Testing the Effect of Financial Performance on Disclosure of Corporate Social Responsibility
The second hypothesis was rejected (H2) that is the value of financial performance (ROA and ROE) has a positive effect on the level of disclosure of corporate social responsibility (CSRD). As in Table 7, it shows the financial performance value represented by ROA and ROE has no positive and significant effect on the CSRD. It provides the empirical fact that the value of the company's financial performance violating financial regulations Bapepam (FSA) has no relationship with the higher level of disclosure of corporate social responsibility in Indonesia.

Theoretically, the company's ability to get profit with higher ROA and ROE tends to get higher corporate social responsibility. It is as a consequence of the social legitimacy of environmental business operations (Deegan 2007). As in the previous studies (Bewley and Y 2006; Brammer and Pavelin 2006; Gamerschlag et al. 2010), this evidence shows the availability of funds to finance corporate social responsibility (Brammer and Pavelin 2006). Besides that, it can lead to the disclosure of social responsibility to achieve more social expectations of society as well as governments around the local business operations (Bewley and Y 2006; Gamerschlag et al. 2010; Islam and Deegan, 2010). All these are expected to culminate in the company's going concern.

In the other side, recent empirical facts indicate the same evidence as in this study. The ROA and ROE do not necessarily have a significant impact on the rank of the disclosure of corporate social responsibility. This is similar to the results by Criso'stomo et al. (2011) in Brazil, (Luethge and Han 2012) in China and in line with the results found by (Lanis and Richardson 2013). The companies violated the tax in Australia with higher of ROA did not necessarily have a high level of disclosure of corporate social responsibility. This result is consistent with findings by Siregar and Bachtiar (2010) who found no significant influence of the company's ROE on disclosure level of corporate social responsibility.

These results indicate the financial violating companies towards Bapepam (FSA) have not con-

sidered it essential for the more disclosure of corporate social responsibility. This may be based on the understanding that the disclosure of corporate social responsibility in Indonesia tend to only add to the cost of the company without bringing direct benefit to the company. The relationship between financial performance and level of disclosure of corporate social responsibility can also be explained by the cost-benefit considerations above rule (Tyler 1990; Watts and Zimmerman 1986). So that the cost-benefit considerations in disclosing corporate social responsibility also remains a major thing that is noticed by the manager of the company, especially for companies in developing countries and closed economies (eg China) (Criso'stomo et al. 2011; Luethge and Han, 2012; Siregar and Bachtiar 2010).

The Test of Abuse Financial Regulations effect on the Level Disclosure Corporate Social Responsibility
It is the third hypothesis (H3) that there is positive and significant correlation between the level of violations of financial regulations set by Bapepam (FSA) (TPPK) and disclosure level of corporate social responsibility (CSRD). As presented in Table 7, the violations of financial regulations of Bapepam (FSA) has correlation with the disclosure level of corporate social responsibility but not statistically significant. Thus, the third hypothesis is rejected. The empirical evidence provides evidence that the company is in violation of financial rules or get a high penalty over the actions that violate the rules will not necessarily do disclosure for more corporate social responsibility to keep a secret the regulation violation.

As referred to the previous studies (Brown and Deegan 1998; Deegan et al. 2002; Lanis and Richardson, 2013; Patten 1992) it was found empirical evidence, the company tends to seek legitimacy from the community for the sustainable operation of the business if they have committed a break of law that attracts public attention. Based on the result, it later indicates differences compared to the previous studies.

First, the violation of financial regulations of Bapepam (FSA) carried out by the companies listed in the Indonesia Stock Exchange has not become a public concern of the stockholder and the general public. Therefore, the company has not yet been obliged to pay more attention on the company's compliance with financial regulations issued by Bapepam (FSA).

Second, market participants in the Indonesia Stock Exchange has not put its attention to the

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problem of financial rule violations committed by the company listed in the Indonesia Stock Exchange. For that reason, it did not create social pressure to divert cases experienced by the company such offenders into the disclosure of corporate social responsibility in the annual report as well as the results of previous studies (Lanis and Richardson 2013).

Third, the company has not significant and negative effect on the sentence issued by Bapepam (FSA) with highest penalty given to companies such violators based on research data that was only Rp 1.000.000.000, -. In comparison, there is a very significant difference in the amount of 0.009% of the average value of assets owned by the violating companies that was worth Rp 10,382,746,000,000, -.

In such condition, the penalty effect has not significantly affected the violating companies toward financial report of Bapepam (FSA). This ultimately led to these companies do not take action a redirect public focus on their offenses in the form of improving corporate social responsibility disclosure in annual reports of each company. On that basis, it can be concluded the company's financial regulation violators toward Bapepam (FSA) is not under threat legitimacy. Thus, the company did not divert the focus of the public by increasing the disclosure of corporate social responsibility (Brown and Deegan 1998; Deegan 2007; Lanis and Richardson 2013).

Testing the Effect of Financial Performance as a Mediating Variable In Relation To the Violations of Financial Regulations and Disclosure of CSR
Hypothesis 4 (H4) the financial performance (ROA and ROE) as a mediating variable in relation to the violation of financial regulations and disclosure of CSR was not supported. In other words, it is rejected, this variable can be considered as mediating (intervening) variable when it is significant in two or more equation models (Ghozali 2012). In other words, these variables can be as the mediating variable. As presented in Table 7, it shows no significant effect between the first and second equation. ROA and ROE are as endogenous variables and they relate to financial rules violations Bapepam (FSA).

However, the use of financial performance as ROA and ROE has been frequently used as a variable in research related to the disclosure of corporate social responsibility, and violations of financial regulations (Baucus and Baucus 1997; Brammer and Pavelin 2006; Gamerschlag et al. 2010; Islam and Deegan 2010; Lanis and Richardson, 2013; Lu-

ethge and Han, 2012; Zeidan 2012). It does not necessarily make ROA and ROE have the ability in this study for focusing on financial regulation violation and disclosure of CSR. Yet, the scope of testing is using the same theory or theories of legitimacy as used in this study.

Discussion of Control Variable Testing
The firm size does not have a positive and significant effect on the financial performance of companies' violating financial regulation of Bapepam (FSA). This can be seen in Table 7. Furthermore, the value of simplification of the natural logarithm of the total assets of the company provides the minimum value of 24.668 or equivalent to Rp 51.66 billion, the maximum value of 31.994, equivalent to Rp 74,653,257,000,000 and the average value of 28.49 or equivalent to Rp 10,382,746,000,000, -. This indicates that in general companies included in the list of violators of Bapepam (FSA) are large companies. Based on the Decree of Bapepam-LK No: KEP-11/PM/1997, they have assets of more than Rp 100 billion.

When the analysis associated with SmartPLS, it indicates the sample, though they are large company category, it does not necessarily make its financial performance directly proportional to the amount of assets owned by the company. On the other hand, the size of the company (SIZE) has positive and significant effect on the disclosure of CSR violating financial regulations of Bapepam (FSA). It can be seen from the significance value in Table 7. This is in line with the explanation legitimacy theory, stating the bigger the size of a company is, the higher the efforts to achieve public legitimacy that the way to disclose CSR (Deegan 2007; Gamerschlag et al. 2010; Lanis and Richardson 2013).

Furthermore, the study found the proportion of leverage reflecting total debt to total assets of the company and it has a negative and significant effect on ROE (return on equity) as shown in Table 7. This may indicate the greater the company's ratio of debt to assets ratio, the lower the ROE is. It is logical if the terms of payment policy liabilities of the company to third parties. Which the company must pay its debt obligations in advance compared to paying shareholders the dividends (Palepu et al. 2010). On the other hand, Table 7 shows the relationship of the company's leverage on ROA, obtaining the degree of leverage that does not have a significant effect on the value of the company ROA.

It indicates the ratio of debt to total assets has no relationship with the level of the ratio of profit

to total assets for the sample companies. Furthermore, the study also found leverage the company does not have an effect on the level of disclosure of CCSR of the financial offenders. The results showed differences compared with the previous studies which found empirical evidence that the higher value of leverage tend to make companies more disclosing their SR. This is intended to maintain their image in front of lenders and other stakeholders (Lanis and Richardson 2013). In addition, it also indicates that companies in Indonesia do not consider the ratio of debt as something that should be hidden through company disclosures good image displayed in the report disclosure of corporate social responsibility. However, it can also illustrate the lack of social pressure from the creditors of the company.

Finally, Table 7 shows the empirical evidence of environmental impact (DL) a significant negative effect on the financial performance represented by the ROE of the company violating financial regulations Bapepam (FSA). This indicates the company that the research samples of this particular company with a value of impact large environments tend to decrease the value of ROE. On the other hand, found empirical evidence DL does not have a significant effect on the value of the company ROA sample of this research. This indicates that the amount of coverage the company's operations do not necessarily increase the value of the company's profitability.

The study also found empirical evidence, that the environmental impact (DL) has a positive and significant effect on the disclosure of SR, violating financial regulations of Bapepam (FSA). This is consistent with the theory of legitimacy and research Gamerschlag et al. (2010) that also tested the effect the environmental impact of companies on the disclosure of SR. It indicates high environmental impact of the companies violating financial regulations of Bapepeam (FSA) in line with their CSR. This is due to their being involved in environmental activities that the companies must be accountable to all stakeholders.

5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

Theoretically, this study contributes to the development of the theory of legitimacy in accounting-finance. In addition, it indicates that violations of financial regulations of Bapapem (FSA) in the Indonesia Stock Exchange (BEI) do not necessarily have a lower effect on financial performance. It resembles being lack of effective financial regula-

tion of Bapepam (FSA) in its application in the Indonesian capital market. Furthermore, violations of financial regulations did not automatically lead to the companies on the Stock Exchange. This must redirect public focus on maintaining the legitimacy in the perspective of stakeholders, indicating that social pressure in maintaining the legitimacy of goodness among the stakeholders have not felt the effect. Empirically this study also provides evidence about the three dimensions of legitimacy in the field of accounting regulatory compliance, disclosure of financial performance and disclosure of corporate social responsibility which are not necessarily interrelated and having an effect in the context of Indonesia.

More specifically this study has implications on two sides. First, the regulatory side that is Indonesia Stock Exchange (ISE) and Bapepam (FSA), could make this study as a reference to revise or strengthen financial regulation in ISE. By doing so they can be more effective in achieving market efficiency. For the managers, this can make it as reference information related to the legitimacy of the tactics applied in Indonesia.

The limitations of this study lies in the sample focusing only on non-financial companies that violate financial regulations and those listed on the Stock Exchange. Finally, the proxies of financial regulation violations are less effective in describing the facts that occurred in the field concerning regulation violations committed by the companies. For further studies, the researchers should examine the type of financial and non-financial industries simultaneously by using a qualitative approach. This is intended to examine the facts of the real effect of financial regulations violation towards performance and corporate social responsibility.

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