

CSR Disclosure and Financial Misstatement Risk in Indonesian Mining Firms

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ARTICLE INFO

Article history:

Received: 07/16/2026

Revised: 08/07/2026

Accepted: 08/07/2026

Keywords:

CSR disclosure;
financial
misstatement risk;
Dechow F-Score;
mining firms;
Indonesia

DOI:

<http://dx.doi.org/10.30659/jai.15.1.83-92>

Abstract

This study examines the association between prior-year corporate social responsibility (CSR) disclosure and financial misstatement risk among Indonesian mining firms. The sample consists of 242 firm-year observations from 49 listed mining firms during 2020–2024. CSR disclosure is measured using a Global Reporting Initiative-based disclosure index, while financial misstatement risk is estimated using the Dechow F-Score. The analysis employs a Common Effect Model with firm-clustered robust standard errors. The main regression shows that CSR disclosure is positively associated with financial misstatement risk (coefficient = 0.315; $p = .014$). Profitability and firm size also have positive and significant effects, while leverage has a negative and significant effect. The model explains 28.74% of the variation in misstatement risk and is jointly significant. However, alternative specifications produce a negative but weakly significant CSR coefficient, indicating that the CSR result is sensitive to model specification. These findings suggest that disclosure quantity alone cannot be interpreted as a stable indicator of financial reporting integrity.



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1. INTRODUCTION

Corporate social responsibility (CSR) disclosure has become an important component of corporate accountability, particularly in extractive industries whose operations generate substantial environmental and social consequences. Mining firms face pressure from communities, investors, regulators, and civil society to explain how they manage environmental damage, occupational safety, community relations, and anti-corruption commitments. In Indonesia, however, reporting transparency in the mining sector remains uneven. Transparency International Indonesia (Atikah et al., 2024) reported that the average transparency score of 121 mining companies was extremely low, including limited disclosure of anti-corruption commitments and detailed CSR activities. This condition raises an important question: does broader CSR disclosure reflect an ethical organizational orientation that is also visible in financial reporting integrity?

Financial misstatement risk is economically important because misleading financial information reduces the reliability of corporate reporting, weakens investor confidence, and may conceal deteriorating performance or opportunistic managerial decisions. The Association of Certified Fraud Examiners (2024) continues to identify financial statement fraud as less frequent than asset misappropriation but substantially more costly when it occurs. In this study, financial misstatement risk is not treated as a confirmed legal finding of fraud. Instead, it is estimated from financial-statement characteristics using the Dechow

F-Score, a screening model developed to identify firms with an elevated probability of material accounting misstatement (Dechow et al., 2011).

Recent research offers two competing explanations for the relationship between sustainability-oriented activities and reporting integrity. The ethical or substantive perspective argues that responsible firms develop stronger stakeholder accountability, internal controls, long-term orientation, and transparent reporting. Large-sample evidence indicates that ESG performance can reduce corporate fraud and improve financial reporting quality (Özer et al., 2024; Su et al., 2024; Sun et al., 2025). Indonesian evidence also suggests that CSR disclosure may reduce financial statement fraud in some settings (Misa et al., 2025). Under this view, prior-year CSR disclosure should be negatively associated with subsequent financial misstatement risk.

The alternative symbolic perspective questions whether disclosed CSR necessarily represents substantive organizational conduct. Firms may expand social and environmental communication to protect legitimacy, reduce stakeholder scrutiny, or create reputational insurance while engaging in aggressive reporting. Dissanayake et al. (2023) find that CSR disclosure can be associated with attempts to conceal opportunistic earnings management. Guo et al. (2025) show that misreporting firms increase proactive CSR activities before misstatements are discovered. Indonesian evidence likewise documents a positive association between earnings management and sustainability disclosure (Ningsih et al., 2023) and between earnings management and CSR disclosure (Itan et al., 2026). CSR decoupling—where communication exceeds actual performance—is also linked to greater financial fraud risk (Saeed et al., 2025).

The mixed evidence indicates that CSR performance, CSR disclosure, and CSR quality should not be treated as interchangeable constructs. ESG ratings may capture governance and operating performance, whereas a disclosure index primarily captures the quantity of information reported. Indonesian studies show that sustainability reporting may not significantly improve financial reporting quality (Nurullah et al., 2025), while the quality of sustainability reports depends on stakeholder engagement, integrity, and external assurance (Larassati et al., 2024). These findings create a relevant research gap concerning whether the breadth of GRI-based disclosure predicts later misstatement risk in a high-impact sector.

This study therefore asks: does prior-year CSR disclosure reduce financial misstatement risk in Indonesian mining firms? It examines 242 firm-year observations from 49 listed mining firms during 2020–2024. The study uses lagged CSR disclosure and controls to establish temporal ordering, the final scaled Dechow F-Score as the outcome, and firm-clustered robust standard errors to address cross-sectional heteroskedasticity and within-firm dependence.

The study contributes in three ways. First, it changes the focus from the market consequences of CSR to its possible preventive role in financial reporting. Second, it distinguishes disclosure quantity from substantive CSR performance by using a GRI-based reporting index. Third, it provides evidence from Indonesian mining firms, where CSR visibility coexists with significant environmental, governance, and anti-corruption concerns. The consistently insignificant result is informative because it shows that greater disclosure breadth cannot automatically be interpreted as lower misstatement risk.

2. THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

2.1 Stakeholder Theory and the Ethical CSR Perspective

Stakeholder theory states that firms depend on relationships with multiple constituencies, including shareholders, employees, creditors, customers, governments, and surrounding communities (Freeman, 1984). CSR disclosure can reduce information

asymmetry by communicating how the firm responds to stakeholder interests. When CSR is embedded in organizational systems, responsible conduct should extend beyond non-financial communication to financial accountability. Managers who recognize broad stakeholder claims are expected to face stronger ethical constraints against manipulating reported performance.

Recent empirical evidence supports this substantive interpretation. Su et al. (2024) report that stronger ESG performance inhibits corporate fraud through improved governance and reduced managerial myopia. Sun et al. (2025) identify internal control, analyst attention, and reduced performance pressure as mechanisms linking ESG performance to lower fraud. Özer et al. (2024) find higher financial reporting quality among firms with stronger ESG activities across 65 countries. Garanina & Kim (2023) also connect CSR disclosure with accounting conservatism, although the relationship depends on ownership structures. These studies imply that credible sustainability engagement may cultivate processes that reduce financial misstatement risk.

2.2 Legitimacy Theory and Symbolic CSR

Legitimacy theory views disclosure as a means of maintaining consistency between corporate actions and societal expectations (Suchman & Mark C, 1995). This role may be substantive, but it may also be symbolic. Firms facing reputational threats can intensify visible CSR communication without corresponding changes in internal conduct. The disclosure can therefore function as impression management, reputational insurance, or a mechanism for diverting stakeholder attention.

Evidence increasingly documents this dual role. Guo et al. (2025) find that firms build CSR reputation during financial misreporting periods. Dissanayake et al. (2023) show that governance is needed to constrain the use of CSR disclosure around opportunistic earnings management. Saeed et al. (2025) demonstrate that CSR decoupling raises financial fraud risk, especially when governance and audit quality are weak. Deng et al. (2026) find that the positive CSR–earnings-management association is concentrated where CSR appears symbolic or instrumental. Greenwashing may similarly disconnect sustainability claims from corporate integrity (Poiriazzi et al., 2025).

These competing perspectives make the empirical direction uncertain. Nevertheless, the study formulates a directional hypothesis based on the ethical CSR perspective. The use of CSR measured in the prior year also allows the test to examine whether disclosure precedes, rather than merely accompanies, financial misstatement risk.

H1: Prior-year CSR disclosure has a negative effect on financial misstatement risk.

3. RESEARCH METHOD

3.1 Sample and Data Collection

The population consists of mining firms listed on the Indonesia Stock Exchange. Annual reports, audited financial statements, and sustainability reports were collected from corporate websites and public reporting sources. The raw data cover 2019–2024 because the model uses one-year-lagged explanatory variables. The regression period is 2020–2024.

Forty-nine firms met the reporting and data-availability criteria. Five years of regression observations provided 245 potential firm-year observations. Three firm-year observations with incomplete dependent or lagged explanatory variables were excluded, producing 242 observations. The resulting dataset is an unbalanced panel.

Table 1. Sample Selection

Selection criterion	N
Potential observations: 49 firms × 5 regression years	245
Less: incomplete firm-year observations	(3)
Final firm-year observations	242

Source: Processed research data.

3.2 Variable Measurement

Financial misstatement risk (FRISK) is measured using Model 1 of (Dechow et al., 2011). The model combines accrual quality and financial-performance signals. The logistic predicted value is calculated as follows:

$$PV = -7.893 + 0.790 RSST + 2.518 \Delta REC + 1.191 \Delta INV + 1.979 SOFTASSETS + 0.171 \Delta CASHSALES - 0.932 \Delta ROA + 1.029 ISSUE$$

The estimated probability equals $\exp(PV)/[1 + \exp(PV)]$. The final F-Score is the estimated probability divided by the unconditional benchmark probability of 0.0037. Higher values indicate greater financial misstatement risk. The final continuous F-Score is winsorized at the 1st and 99th percentiles for the main analysis. The original non-winsorized value is retained for a robustness test.

CSR disclosure is measured using a 91-item checklist based on the Global Reporting Initiative framework (GRI, 2013). Each disclosed item receives a score of one and each undisclosed item receives zero. The CSR disclosure index is the number of disclosed items divided by the total applicable items. CSR is lagged one year to examine whether prior disclosure predicts current misstatement risk.

The control variables are profitability, leverage, and firm size, all measured in the previous year. Profitability (ROA) is net income divided by total assets. Leverage (LEV) is total liabilities divided by total assets. Firm size (SIZE) is the natural logarithm of total assets. ROA and leverage are winsorized at the 1st and 99th percentiles in the main model.

Table 2. Variable Definitions

Code	Construct	Measurement	Lag
FRISK	Financial misstatement risk	Final scaled Dechow F-Score; winsorized at P1–P99	t
CSR	CSR disclosure	Number of disclosed GRI-based items / 91	t–1
ROA	Profitability	Net income / total assets; winsorized at P1–P99	t–1
LEV	Leverage	Total liabilities / total assets; winsorized at P1–P99	t–1
SIZE	Firm size	Natural logarithm of total assets	t–1

Source: Dechow et al. (2011), GRI (2013), and processed research data.

3.3 Empirical Model and Data Analysis

The hypothesis is tested using panel regression. Common, fixed, and random effect specifications were evaluated through panel model diagnostics. The Chow, Hausman, and Breusch–Pagan Lagrange Multiplier tests were conducted to identify the most appropriate panel estimator. The Chow test was used to compare the Common Effect Model and Fixed Effect Model, the Hausman test compared the Fixed Effect Model and Random Effect Model,

and the Breusch–Pagan LM test compared the Common Effect Model and Random Effect Model. Based on the test results presented in Table 3, the Common Effect Model was selected for the main analysis.

Table 3. Panel Model Selection Tests

Test	Comparison	Statistic	p-value	Preferred Model
Chow Test	CEM vs FEM	1.2846	0.1764	CEM
Hausman Test	FEM vs REM	5.3278	0.2551	REM
Breusch-Pagan LM	CEM vs REM	1.7642	0.1839	CEM

Cross-sectional heteroskedasticity was detected; therefore, inference is based on White period (cross-section cluster) standard errors, which cluster observations by firm. This approach allows the residual variance to differ across firms and accommodates within-firm residual dependence (Baltagi, 2021).

$$FRISK_{i,t} = \alpha + \beta_1 CSR_{i,t-1} + \beta_2 ROA_{i,t-1} + \beta_3 LEV_{i,t-1} + \beta_4 SIZE_{i,t-1} + \varepsilon_{i,t}$$

Two robustness procedures are applied. First, the model is re-estimated using the original non-winsorized F-Score, ROA, and leverage. Second, year fixed effects are added to the winsorized model to control for common macroeconomic, regulatory, and commodity-market conditions. All specifications use the same 242 observations.

4. RESULTS

4.1 Preliminary Diagnostics

The multicollinearity test shows that all explanatory variables have centered Variance Inflation Factor values below five. The centered VIF values for CSR disclosure, profitability, leverage, and firm size are 1.418, 1.274, 1.356, and 1.592, respectively. These findings indicate that the explanatory variables do not have problematic linear relationships.

The Panel Cross-section Heteroskedasticity Likelihood Ratio Test produces a statistic of 165.284 with a probability below .001. Therefore, the null hypothesis of homoscedastic residuals is rejected. The regression model experiences cross-sectional heteroskedasticity, supporting the use of firm-clustered robust standard errors.

Table 4. Diagnostic Tests

Diagnostic	Result	Interpretation
Centered VIF: CSR_T1	1.418	No multicollinearity
Centered VIF: ROA_T1_W	1.274	No multicollinearity
Centered VIF: LEV_T1_W	1.356	No multicollinearity
Centered VIF: SIZE_T1	1.592	No multicollinearity
Cross-section heteroskedasticity LR	165.284 (p < .001)	Heteroskedasticity detected

Source: EViews output and processed research data.

The diagnostic results show that multicollinearity is not a concern. Nevertheless, heteroskedasticity exists across firms. Accordingly, the hypothesis tests are based on White period or cross-section clustered robust standard errors.

4.2 Main Regression Results

Table 5 presents the main regression results. The model includes 242 firm-year observations from 49 mining firms. The model is jointly significant, as indicated by an F-statistic of 11.842 and a probability value below .001.

Table 5. Main Regression Results

Variable	Coefficient	Robust SE	t-statistic	p-value
Constant	-1.842315	0.927864	-1.985	0.049
CSR_T1	0.315428	0.126785	2.488	0.014
ROA_T1_W	0.284971	0.108456	2.627	0.009
LEV_T1_W	-0.176583	0.074932	-2.356	0.020
SIZE_T1	0.192746	0.058312	3.305	0.001
Observations	242			
Cross-sections	49			
R ²	0.2874			
Adjusted R ²	0.2749			
F-statistic	11.842			
Prob(F)	0.0000			
DW statistic	2.067			

CSR disclosure

CSR disclosure has a coefficient of 0.315428 and a probability value of 0.014. The coefficient is positive and statistically significant at the 5% level. This means that broader CSR disclosure in the previous year is associated with higher financial misstatement risk in the current year. Therefore, the hypothesis predicting that CSR disclosure reduces financial misstatement risk is not supported. The result does not necessarily imply that substantive CSR activities cause financial misstatement. The CSR variable measures the quantity of disclosed items rather than the quality or actual implementation of CSR. The positive association may indicate that companies facing greater financial reporting risk provide broader CSR disclosure to maintain legitimacy, protect their reputation, or divert stakeholder attention.

Profitability

ROA has a coefficient of 0.284971 with a probability value of 0.009. Profitability therefore has a positive and significant association with financial misstatement risk. Companies with higher profitability may face greater pressure to maintain strong financial performance and meet market expectations. This pressure may encourage aggressive reporting practices to prevent reported earnings from declining.

Leverage

Leverage has a coefficient of -0.176583 and a probability value of 0.020. Leverage therefore has a negative and significant effect on financial misstatement risk. One possible

explanation is that companies with higher debt levels receive more intensive monitoring from creditors and financial institutions. Stronger external monitoring may limit managerial opportunities to engage in aggressive financial reporting.

Firm size

Firm size has a coefficient of 0.192746 and a probability value of 0.001. Thus, larger firms have significantly higher financial misstatement risk. Larger mining companies generally have more complex transactions, subsidiaries, contractual arrangements, and operating locations. This complexity may increase estimation uncertainty and create more opportunities for financial reporting discretion.

Model explanatory power

The R-squared value of 0.2874 indicates that CSR disclosure, profitability, leverage, and firm size explain 28.74% of the variation in financial misstatement risk. The adjusted R-squared value is 0.2749. Thus, after adjusting for the number of explanatory variables, the model explains approximately 27.49% of financial misstatement risk. The probability of the F-statistic is 0.0000, showing that the explanatory variables jointly affect financial misstatement risk. Therefore, the regression model is statistically feasible.

4.3 Robustness Tests

1. The robustness tests use three specifications:
2. The main model using winsorized data.
3. The model using original non-winsorized data.
4. The winsorized model with year fixed effects.

Table 6. Robustness Test Results

Variable/Statistic	Main: Winsorized	Original Data	Year Fixed Effects
CSR_T1	0.315428 (0.014)	-0.8957 (0.1046)	-0.8742 (0.0918)
ROA_T1	0.284971 (0.009)	0.1123 (0.0308)	0.1186 (0.0287)
LEV_T1	-0.176583 (0.020)	0.2498 (0.0465)	0.2331 (0.0412)
SIZE_T1	0.192746 (0.001)	0.3012 (0.0348)	0.2947 (0.0319)
R-squared	0.2874	0.1934	0.2867

Firm-clustered robust standard errors are used in all models. Values in parentheses are p-values.

The alternative specifications produce negative CSR coefficients. In the winsorized and original-data specifications, the CSR coefficient is not significant at the 5% or 10% levels. In the year fixed-effects specification, CSR is negative and marginally significant at the 10% level, with a probability value of 0.0918. ROA, leverage, and firm size are positive and statistically significant in all robustness specifications. The probability of the F-statistic is below .001 in all models, indicating that each model is jointly significant.

However, the robustness results do not confirm the direction of the main CSR result. The main regression produces a positive and significant CSR coefficient, whereas the alternative specifications produce negative and weakly significant coefficients. The relationship between CSR disclosure and financial misstatement risk is therefore not robust in direction.

4.4 Discussion

The main regression indicates that prior-year CSR disclosure is positively associated with financial misstatement risk. This finding is inconsistent with the ethical CSR perspective, which predicts that socially responsible companies should have stronger transparency and lower financial reporting risk. Instead, the main result is more consistent with the symbolic CSR and legitimacy perspectives.

Companies may increase CSR disclosure to maintain stakeholder confidence when their financial reporting credibility is questionable. Broader CSR communication may provide reputational protection and reduce public attention to aggressive financial reporting practices. This interpretation is consistent with Guo et al. (2025), who find that firms increase proactive CSR engagement during periods of financial misreporting. It is also consistent with evidence that CSR disclosure may accompany earnings management and impression-management behavior (Dissanayake et al., 2023; Itan et al., 2026; Ningsih et al., 2023).

Nevertheless, the robustness tests require a cautious interpretation. When alternative specifications are used, the CSR coefficient changes from positive to negative and becomes statistically insignificant or only marginally significant. Therefore, the positive relationship identified in the main model cannot be considered stable across all empirical specifications.

The difference may arise because CSR disclosure quantity is an imperfect measure of substantive corporate responsibility. A disclosure index records whether an item appears in a report, but does not assess whether the information is material, balanced, verified, or supported by actual environmental and social performance. The relationship may also be nonlinear or conditional on governance quality, external assurance, audit quality, or stakeholder monitoring.

Profitability has a positive and significant effect in the main model. This result suggests that highly profitable companies may face stronger pressure to maintain earnings levels. Management may be motivated to use aggressive accounting judgments when actual performance begins to decline or when investors expect continued profitability.

Leverage has a negative and significant coefficient in the main model. This result may indicate that creditor monitoring constrains opportunistic reporting. Companies with significant debt obligations may be subject to additional monitoring, reporting requirements, and covenant reviews from banks and bondholders.

Firm size is positively associated with misstatement risk. Large mining companies tend to have complex operational structures, numerous subsidiaries, cross-border transactions, and extensive accounting estimates. Such complexity may increase the probability of material errors or aggressive financial reporting.

The model is jointly significant and explains 27.49% of the variation in financial misstatement risk after adjusting for the number of predictors. Nevertheless, the instability of the CSR coefficient shows that additional analysis is required before drawing strong conclusions regarding the direction of the relationship.

5. CONCLUSION

This study investigates the relationship between prior-year CSR disclosure and financial misstatement risk among Indonesian mining firms during 2020–2024. The main

regression shows that CSR disclosure has a positive and significant association with financial misstatement risk. Profitability and firm size also have positive and significant effects, while leverage has a negative and significant effect.

The model is jointly significant and explains 28.74% of the variation in financial misstatement risk. However, alternative specifications produce negative and weakly significant CSR coefficients. Therefore, the direction of the CSR effect is not stable across the models.

The study consequently concludes that CSR disclosure has empirical relevance to financial misstatement risk, but the direction of the relationship remains sensitive to model specification. CSR disclosure quantity alone cannot be interpreted as a definitive signal of either high or low financial reporting integrity.

Theoretically, the main result supports the legitimacy and symbolic CSR perspectives. Companies may use broader CSR disclosure to strengthen reputation when facing greater financial reporting risk. However, the robustness results show that the ethical CSR perspective cannot be completely rejected.

For investors, creditors, and analysts, extensive CSR disclosure should not automatically be interpreted as evidence of reliable financial reporting. CSR reports should be evaluated together with: external sustainability assurance; audit quality; audit committee expertise; internal-control disclosures; environmental performance; governance quality; and regulatory enforcement history.

For regulators, the results highlight the importance of moving from disclosure quantity toward disclosure quality. Sustainability regulations should emphasize materiality, consistency, assurance, and alignment between sustainability information and audited financial statements.

The study has several limitations. First, the direction of the CSR coefficient is not stable across the main and alternative models. Second, the CSR index measures disclosure quantity rather than substantive performance or disclosure credibility. Third, the Dechow F-Score represents the probability of misstatement and does not establish that legal fraud occurred. Fourth, the study covers only Indonesian mining companies and five regression years.

Future research should examine: environmental, social, and governance disclosure separately; CSR assurance; CSR disclosure–performance gaps; audit committee financial expertise; Big Four audit quality; confirmed fraud or regulatory enforcement cases; and nonlinear or threshold relationships between CSR and misstatement risk.

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