Effects of Socio-Environmental Performance and Costs, Firm Size, and Sustainability Reporting on Financial Performance: A Mediating Analysis

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Abstract

There are still inconsistent findings and an unclear mediating role for Sustainability Reporting (SR) in the relationships among Socio-Environmental Performance, Socio-Environmental Costs, firm size, and financial performance. This study examines the impact of Socio-Environmental Performance, Socio-Environmental Costs, and firm size on financial performance, considering SR as a mediating variable. Using secondary data and a quantitative descriptive approach, the research sampled 21 manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2021. These companies met criteria such as consistent financial reporting, absence of consecutive losses, and participation in the Ministry of Environment and Forestry's PROPER program. Data were collected from financial and annual reports available on the IDX and company websites. Analysis using Smart PLS 4.0 revealed that Socio-Environmental Performance and SR significantly influence financial performance, while company size does not. Additionally, Socio-Environmental Performance and company size positively influence SR, but Socio-Environmental Costs do not. SR mediates the relationship between Socio-Environmental Performance and financial performance, but not between Socio-Environmental Costs and financial performance.

Keywords: socio environmental performance; socio environmental costs; company size; financial performance

INTRODUCTION

A company aims to maximize profits and secure additional capital from investors. However, the increasing emphasis on environmental preservation challenges businesses to balance profitability with sustainability. Corporate activities that excessively exploit natural resources often lead to environmental degradation, including soil, water, air, and noise pollution. This raises concerns among local communities and stakeholders, compelling companies to consider the social and environmental consequences of their operations. In Indonesia, the implementation of the Sustainability Report (SR) is mandated under Government Regulation Number 47 of 2012, ensuring corporate accountability in environmental preservation. SR serves as a tool to fulfill environmental responsibilities and promote long-term sustainability by addressing public and stakeholder demands. The Ministry of Environment and Forestry (KLHK) oversees corporate environmental performance through initiatives like the Performance Rating Program (PROPER), which evaluates Socio Environmental Performance.

Socio Environmental Costs represent expenses incurred by companies in meeting their environmental obligations. While some perceive these costs as a financial burden, they can be viewed as long-term investments that enhance corporate reputation and stakeholder confidence. Prioritizing environmental and social responsibilities enables companies to attract investments, expand market share, and achieve sustainable profitability. Firm size, indicated by total assets, also plays a significant role in shaping investor perceptions and influencing capital investment decisions. Larger companies often have greater opportunities to attract investors due to their perceived stability and capacity for growth.

The relationship between SR, financial performance, Socio Environmental Performance, Socio Environmental Costs, and firm size has been the subject of extensive research. Studies such as those by Kristiani & Werastuti (2020) and Tahu (2019) have reported positive correlations between environmental and financial performance. However, other studies reveal inconsistent findings regarding these relationships. For instance, Vivianita & Nafasati (2018) and Meiyana & Aisyah (2019) observed no significant positive influence of Socio Environmental Performance on financial performance, while Saputra (2020) found no positive relationship between firm size and financial performance.

Similarly, the mediating role of SR in these relationships remains inconclusive. Setiawan et al. (2018) identified SR as a mediating variable for Socio Environmental Performance and financial performance, whereas Siregar et al. (2022) reported contrary findings. These discrepancies highlight a gap in understanding the interplay among these variables. Given these varying outcomes, this study revisits the correlations among Socio Environmental Performance, Socio Environmental Costs, firm size, and financial performance, with SR as a mediating variable. By focusing on manufacturing companies listed on the Indonesia Stock Exchange from 2019 to 2021, this research aims to address existing gaps and provide clarity on the relationships among these critical factors.

This study aims to examine the influence of Socio Environmental Performance, Socio Environmental Costs, and firm size on financial performance while investigating the mediating role of SR in these relationships. By exploring the significance of sustainability practices for corporate performance, this research seeks to contribute valuable insights into the implementation of effective environmental and social strategies.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Signaling Theory

According to Signaling Theory, external investment decisions heavily rely on the information disseminated by a company. The more frequently a company discloses its social responsibility, which represents positive information, the market will perceive it as a competitive advantage. (Purawan & Wirakusuma, 2020).

The disclosure of Socio Environmental Performance, Socio Environmental Costs, company size through total assets, and SR information published as an announcement will provide signals to investors in making investment decisions. The quality of financial reporting is also a signal for financial market participants and other stakeholders, indicating that the management can address social and environmental issues within the company.

Financial Performance

Financial performance refers to an analysis conducted to assess the extent to which a company has implemented financial practices following the established rules and regulations. This includes preparing financial statements that comply with the standards set in Financial Accounting Standards (SAK) or General Accepted Accounting Principles (GAAP) (Fahmi, 2012 in (Siregar et al., 2022).

Sustainability Report (SR)

Sustainability Report (SR) refers to a company's sense of responsibility toward promoting the social and environmental welfare of the communities in which it conducts business. This involves participating in endeavours that promote the well-being of the nearby populace and conserve the natural surroundings. SR initiatives may involve providing scholarships for kids who are disadvantaged, contributing funds for public facility maintenance, and donating to build social facilities or villages that benefit the broader community, especially those residing near the company's location. According to Widhiastuti et al., (2017), annual reports' SR has transitioned from an optional report to a compulsory requirement for companies, as stated in Law No. 40 of 2007 and Government Regulation No. 47 of 2012.

Socio Environmental Performance

Socio Environmental Performance reflects a company's commitment to its surrounding environment. The Socio Environmental Performance can influence the perception of other companies (investors) and the local community regarding the company's reputation. The positive or negative image of a company in the eyes of other companies (investors) and the local community can impact the company's long-term revenue growth. The company's revenue, as presented in its financial statements, serves as a benchmark for assessing the effectiveness of its financial performance processes.

Socio Environmental Costs

Socio Environmental Costs are the costs a firm spends to manage the environmental effect of its operations. Environmental expenses can be divided into four categories: prevention costs, detection costs, internal failure costs, and external failure costs. Environmental expenditures mentioned in a company's annual report are regarded an additional cost in financial reporting and are used in financial accounting. In the Income Statement, costs are an important item. The Income Statement is a critical component of the financial statements that corporations must prepare for each reporting period. Investors use it to evaluate the company's success via published financial performance reports.

Company Size

Company size is one of the indicators used to determine a company's magnitude, which is commonly evaluated by total assets. A corporation is deemed huge if it has significant total assets, and vice versa. A company's scale might entice investors to commit funds, increasing the company's external sources of funding. A large-sized corporation also has more chances of success in the competitive business sector (Yunita et al., 2021)

The Influence of Socio Environmental Performance on Company Financial Performance

According to research conducted by Suaidah & Putri (2020), Socio Environmental Performance strongly influences financial performance. This is due to the fact that organisations with strong Socio Environmental Performance obtain positive responses from stakeholders, which contributes to long-term revenue development. Based on this description, the researchers' hypothesis is as follows:

H_1: Socio environmental performance influences the company's financial performance

The Influence of Socio Environmental Costs on Company Financial Performance

Research conducted by Meiyana & Aisya, (2019) found that Socio Environmental Costs significantly negatively impact financial performance, meaning that the more Socio Environmental Costs incurred, the lower the financial performance of a company. Based on this description, the second hypothesis proposed by the researchers is as follows:

H_2: Socio environmental costs influence the company's financial performance

The Influence of Company Size on Company Financial Performance

The study conducted by Ladyve et al., (2020), found that firm size positively impacts a company's financial performance. It is stated that when assets increase, the size of the company also becomes larger, resulting in improved financial performance through increased stock received by the company. Based on this description, the second hypothesis proposed by the researchers is as follows:

H_3: Firm size influences the company's financial performance

The Influence of Sustainability Report (SR) on Company Financial Performance

Yadnyana dan Damamik (2017) showed that Sustainability Report (SR) positively impacted financial performance. This indicates that firms tend to report their social responsibility outcomes in annual reports to gain good responses from investors through rising stock prices, significantly impacting the company's financial performance. Based on this description, the researchers' fourth hypothesis is as follows:

H_4: Sustainability Report (SR) influences the company's financial performance

The Influence of Socio Environmental Performance on Sustainability Report (SR)

Saputra (2020) showed Socio Environmental Performance positively impacts Sustainability Report (SR). This suggests that companies with strong Socio Environmental Performance are more likely to disclose their social and environmental responsibilities or to practice good SR. Based on this description, the researcher's fifth hypothesis is as follows:

H_5: Socio environmental performance influences the SR

The Influence of Socio Environmental Cost on Sustainability Report (SR)

Companies that successfully control Socio Environmental Costs and still generate profits will be more confident in disclosing SR. This is because SR disclosure can be seen as the realization of the costs incurred (Adyaksana & Pronosokodewo, 2020). The study conducted by Setiawan et al., (2018) showed that there is a relationship between Socio Environmental Costs and SR. Based on this description, the sixth hypothesis proposed by the researcher is as follows:

H_6: Socio environmental costs influences the SR

The Influence of Company Size on Sustainability Report (SR)

The size of a company, whether large or small, depends on its total assets. When a company discloses SR to the public, the public, especially stakeholders, respond positively, which can increase the company's assets through public interest and capital injection from stakeholders.

The study conducted by Setiawan et al., (2018) showed that there as no significant relationship between Company Size and SR. Based on this description, the seventh hypothesis proposed by the researcher is as follows:

H_7: Company size influences the SR

The Influence of Socio Environmental Performance on Company Financial Performance with Sustainability Report (SR) as Mediating Variable

The research conducted by Meiyana & Aisyah (2019) showed that SR is able to mediate the relationship between Socio Environmental Performance and Financial

Performance. This is because the Socio Environmental Performance through SR on an annual basis creates a positive image of the company among stakeholders, thereby improving the company's financial performance. Based on this description, the eighth hypothesis proposed by the researcher is as follows:

H_8: Socio environmental performance influences financial performance through sustainability report (SR)

The Influence of Socio Environmental Costs on Company Financial Performance with Sustainability Report (SR) as Mediating Variable

Companies that allocate funds for Socio Environmental Costs demonstrate their commitment to environmental management. The research conducted by Setiawan et al., (2018) stated that SR could mediate the relationship between Socio Environmental Costs and Financial Performance. Based on this description, the ninth hypothesis proposed by the researcher is as follows:

H_9: Socio environmental costs influences financial performance through Sustainability Report (SR)

The Influence of Company Size on Company Financial Performance with Sustainability Report (SR) as Mediating Variable

When making investment decisions, investors will undoubtedly evaluate a variety of factors, one of which is the size of the company, as shown by the total assets owned by the company. The quantity of total assets can be determined by the level of SR disclosure in each company's annual reports. According to Siregar et al., (2022), SR can moderate the link between Company Size and Financial Performance. Based on this description, the researcher's tenth hypothesis is as follows:

H_{10}: Sustainability Report (SR) influences financial performance through company size

Based on the hypotheses, the Research Model is presented in the Figure 1.

METHOD

Design and Variables

This research employed a quantitative approach to investigate the relationships among Socio Environmental Performance, Socio Environmental Costs, Firm Size, Financial Performance, and the mediating role of Sustainability Report

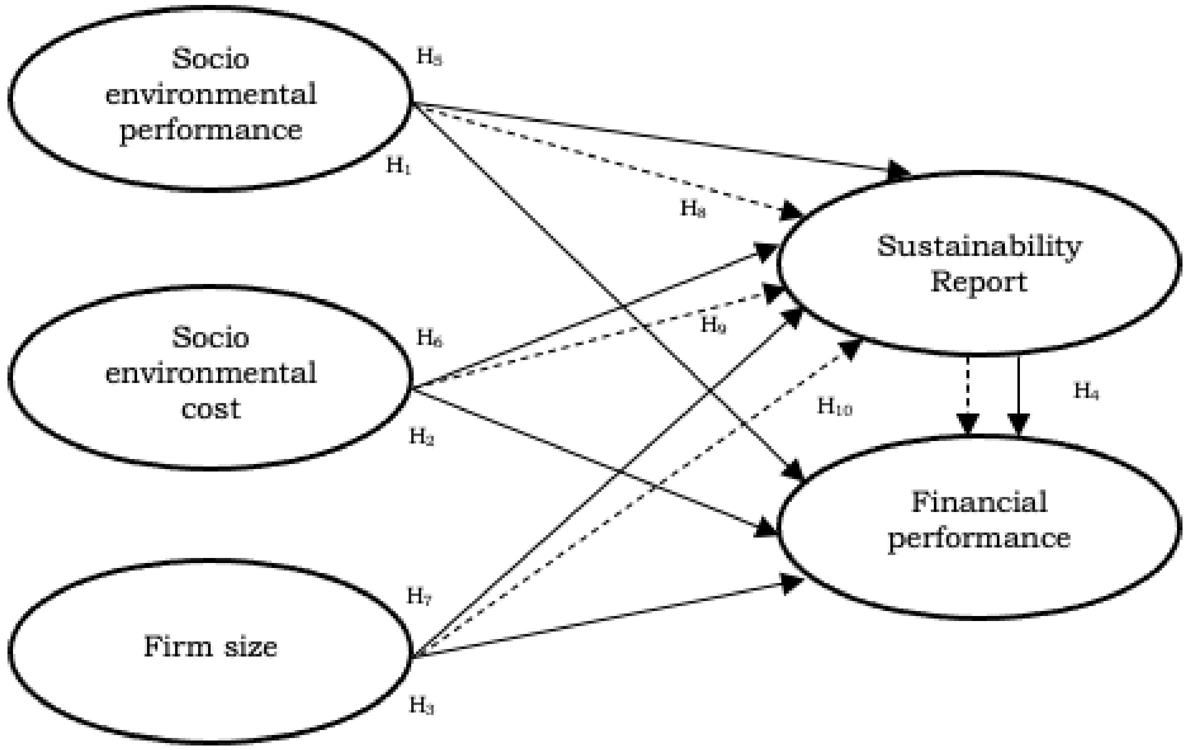

Figure 1. Research Model

(SR). Each research variable was measured as follows: Socio Environmental Performance (X1) was assessed using the PROPER rating issued by the Ministry of Environment and Forestry (KLHK), where companies with higher ratings were considered to exhibit better socio-environmental performance. Socio Environmental Costs (X2) were calculated from the total costs allocated for socio-environmental activities, extracted from the companies' Sustainability Reports and financial statements, and included prevention, detection, and remediation expenses. Firm Size (X3) was measured by the total assets of the company, as disclosed in the financial statements. Financial Performance (Y) was represented by the Return on Assets (ROA), calculated as the ratio of net income to total assets. The Sustainability Report (SR), serving as the mediating variable, was measured based on the Global Reporting Initiative (GRI) fourth-generation G.4 guidelines, focusing on the disclosure of social and environmental responsibilities.

Sampling Criteria and Data Collection

The sample selection process involved several criteria. First, companies listed under the manufacturing sector on the Indonesia

Stock Exchange (IDX) from 2019 to 2021, as documented in the IDX Fact Book, were considered. Second, companies that consistently published annual reports containing complete financial statements, socio-environmental cost data, and SR disclosures aligned with GRI G.4 guidelines during the study period were included. Third, companies that reported profits for three consecutive years (2019 to 2021) were selected. Lastly, companies included in the PROPER program by the Ministry of Environment and Forestry during the study period were part of the sample.

The study utilized secondary data collected from publicly available sources. Annual reports were obtained from the official IDX website (www.idx.co.id), PROPER ratings were sourced from the Ministry of Environment and Forestry website (www.menlh.go.id), and Sustainability Reports and socio-environmental cost data were accessed from the respective official websites of manufacturing companies listed on the IDX. In addition, a literature review was conducted to gather insights from books, scholarly articles, theses, and another relevant research.

Data Analysis

The validity and reliability of the data collection instruments were ensured through the use of standardized indicators and cross-verification. Validity was guaranteed by employing established indicators such as the GRI G.4 guidelines and PROPER ratings, which ensured the relevance and accuracy of the variables. Reliability was maintained by cross-checking reports from multiple years to confirm consistency and adherence to financial and environmental reporting standards.

The hypotheses were tested using Structural Equation Modeling (SEM) with the SmartPLS software version 4.0.9.1. The analysis included an evaluation of the outer model to assess the validity and reliability of the measurement model, an inner model evaluation to examine multicollinearity and R-squared values, and the bootstrapping method to determine the statistical significance of direct and indirect effects. This comprehensive approach ensures robust and reliable findings, aligning with the research objectives.

RESULTS AND DISCUSSION

Hypotesis Testing

Through the process of Booststrapping in SmartPLS software version 4.0.9.1, two hypothesis testing techniques were obtained, namely the direct effect testing technique and the indirect effect testing technique. The direct effect testing technique aims to examine the causal relationship between the dependent and independent variables. This technique is used to test H_1, H_2, H_3, H_4, H_5, H_6, and H_7. The Indirect Effect Testing technique examines the Mediating variable's ability to act as a mediator between the dependent and independent variables. This technique is used to test H_8, H_9, and H_{10}.

The table 1 summarizes hypothesis testing for the direct and indirect effects of socio-environmental factors, firm size, and sustainability reporting on financial performance. The analysis highlights several key insights into how these variables interact within a corporate context.

For direct effects, the results indicate that socio-environmental performance (SEP) has a significant positive impact on financial performance, with a high T statistic value of 3.555 and a P-value of 0.000, affirming the beneficial financial outcomes of robust environmental practices. In contrast, socio-environmental costs (SEC) are shown to negatively affect financial performance significantly, which suggests that higher costs associated with environmental practices might detract from financial results, as evidenced by a T-statistic of 5.715 and the same P-value of 0.000.

Interestingly, firm size (FS) does not exhibit a significant direct effect on financial performance, with a P-value of 0.140, indicating that the scale of a firm alone does not predict its financial outcomes. However, sustainability reporting (SR) does have a significant negative direct effect on financial performance, with a T-statistic of 3.796 and a P-value of 0.000, perhaps suggesting that the initial investments into sustainability practices can be financially challenging.

Furthermore, the impact of socio-environmental performance on sustainability reporting is positive and significant, which underscores that companies with better environmental performance are likely to engage more in sustainability reporting. The negative and non-significant effect of socio-environmental costs on sustainability reporting, however, suggests that the costs incurred do not influence the extent of sustainability reporting, which might reflect a decoupling of financial expenditure on environmental initiatives from how these efforts are reported.

Table 1. Hypothesis Testing Results

	Original sample (O)	T statistics (|O/STDEV|)	P values	remark
Result of Direct Effect				
SEP -> FP	0.525	3.555	0.000	significant
SEC -> FP	-0.498	5.715	0.000	significant
FS -> FP	-0.187	1.475	0.140	not significant
SR -> FP	-0.382	3.796	0.000	significant
SEP -> SR	0.359	3.141	0.002	significant
SEC -> SR	-0.071	0.680	0.497	not significant
FS -> SR	0.272	2.942	0.003	significant
Result of Indirect Effect				
SEP -> SR -> FP	-0.137	2,206	0.027	significant
SEC -> SR -> FP	0.027	0,679	0.497	not significant
FS -> SR -> FP	-0.104	2,317	0.021	significant

*SEP = socio environmental performance; FP = financial performance; SEC = socio environmental cost; FS = firm size; SR = sustainability report;

In terms of indirect effects, the pathway from SEP through sustainability reporting to financial performance is significant but negative indicating that while environmental performance boosts sustainability reporting, this does not translate into immediate financial gains. On the other hand, the indirect effect of firm size through sustainability reporting to financial performance is also significant and negative, revealing that larger firms might see a dilution of financial performance due to expansive sustainability reporting.

Overall, these findings delineate the complex relationships between environmental practices, reporting, and financial outcomes in firms. They suggest that while positive socio-environmental practices can enhance reporting, the financial benefits may not always be immediate, particularly when considering the costs involved.

Discussion

The Influence of Socio Environmental Performance on Financial Performance

The Bootstrapping process in SmartPLS software version 4.0.9.1 resulted in a path coefficient value of 0.525, a T-Statistics value of 3.555 > 1.988 (T-Table value), and a significance test of the probability value (p-value) of 0.000 0.05, indicating that Socio Environmental Performance has a positive and significant impact on financial performance in manufacturing companies listed on the Indonesia Stock Exchange (BEI) from 2019 to 2021. Thus, hypothesis H1 is accepted.

The Socio Environmental Performance of a company reflects its concern for the surrounding environment. The Socio Environmental Performance can influence the perception of other companies (investors) and the local community regarding the company's overall value. The positive or negative image of a company, as perceived by other companies (investors) and the local community, can impact the company's long-term revenue growth. A company's financial performance is assessed based on the presentation of its financial statements, which serve as a benchmark for evaluating the success or failure of its financial performance. Therefore, the accepted hypothesis in this study suggests that a company's positive Socio Environmental Performance will enhance its financial performance, as indicated by the PROPER rating that aligns with the company's level of Socio Environmental Performance in preserving its surrounding environment. This finding is consistent with the research conducted by (Subakhtiar et al., 2022) which demonstrates that Socio Environmental Performance has a positive and significant impact on financial performance.

The Influence of Socio Environmental Costs on Financial Performance

From the Booststrapping process in SmartPLS software version 4.0.9.1, it was found that the path coefficient value is -0.498, with a T-Statistics value of 5.715 > 1.988 (T-Table value), and the significance test of the probability value (p-value) is 0.000 < 0.05. Therefore, it can be concluded that Socio Environmental Costs negatively and significantly impact the financial performance of manufacturing companies listed on the Indonesia Stock Exchange (BEI) from 2019 to 2021. Thus, H2 is accepted.

In the production process of every manufacturing company, waste is inevitably generated. Companies incur Socio Environmental Costs to prevent or address the environmental damage caused by such waste generation. The reduction in company profits due to Socio Environmental Costs can affect the income statement, which is a key component of a company's financial statements prepared for each reporting period. Investors use this information to evaluate a company's financial performance by publishing Return on Assets (ROA) percentages. Therefore, the accepted hypothesis in this study indicates that Socio Environmental Costs in a company will affect the ROA percentage as an indicator of financial performance. This finding is consistent with the research conducted by (Meiyana & Aisyah, 2019) which demonstrates that Socio Environmental Costs negatively and significantly impact financial performance.

The Influence of Company Size on Financial Performance

From the Booststrapping process in SmartPLS software version 4.0.9.1, it was found that the path coefficient value is -0.187, with a T-Statistics value of 1.475 < 1.988 (T-Table value), and the significance test of the probability value (p-value) is 0.140 > 0.05. Therefore, it can be concluded that Company Size does not significantly impact the financial performance of manufacturing companies listed on the Indonesia Stock Exchange (BEI) from 2019 to 2021. Thus, H3 is rejected.

In investment decision-making, investors also consider the Company Size in terms of the company's total assets, whether large or small. While Company Size can potentially enhance financial performance, it can also lead to a decrease in financial performance/profitability (ROA) in a company. The impact of Company Size on financial performance can be attributed to poor asset management by the company, resulting in the expiration of assets that cannot be quickly addressed. If an asset has reached the end of its useful life or is damaged, the stability of the company's assets will not affect the profits. Instead, there will be accumulation of inventory that cannot be utilized or sold, which neither increases nor decreases profits. If this situation persists and the assets are not reinvested, the company will experience a decline in profits, consequently leading to a decline in financial performance. This finding aligns with the research conducted by (Aprilliani & Totok, 2018) which indicates that Company Size does not have a significant impact on financial performance.

The Influence of Sustainability Report (SR) on Financial Performance

From the Booststrapping process in SmartPLS software version 4.0.9.1, it was found that the path coefficient value is -0.366, with a T-Statistics value of 3.796 > 1.988 (T-Table value), and the significance test of the probability value (p-value) is 0.000 < 0.05. Therefore, it can be concluded that Sustainability Report (SR) negatively and significantly impacts the financial performance of manufacturing companies listed on the Indonesia Stock Exchange (BEI) from 2019 to 2021. Thus, H4 is accepted.

The allocation of budgets by companies for SR activities reduces a company's profitability level (ROA). Additionally, the majority of investors still have a low perception of SR disclosure because companies often treat SR disclosure merely as a form of advertising and a formality in providing relevant information. However, with proper SR disclosure, it is expected to be a consideration for investors to invest capital and attract public attention to get to know the company. This indicates that companies implementing SR also receive positive responses from the market participants. Therefore, the accepted hypothesis in this study suggests that companies engage in SR disclosure to gain benefits from investors and attract customers from the general public, thereby maximizing the profit or profitability of a company and improving its financial performance. This finding aligns with the research conducted by (Siregar et al., 2022), which demonstrates that SR significantly impacts financial performance.

The Influence of Socio Environmental Performance on Sustainability Report (SR)

From the Booststrapping process in SmartPLS software version 4.0.9.1, it was found that the path coefficient value is 0.359, with a T-Statistics value of 3.141 > 1.988 (T-Table value), and the significance test of the probability value (p-value) is 0.002 < 0.05. Therefore, it can be concluded that Socio Environmental Performance positively and significantly impacts SR in manufacturing companies listed on the Indonesia Stock Exchange (BEI) from 2019 to 2021. Thus, H5 is accepted.

Socio Environmental Performance cannot be separated from the existence of Sustainability Report. This is because one of the implementations of Sustainability Report is related to Socio Environmental Performance. Sustainability Report activities can enhance the legitimacy from various parties and contribute to the company's positive image, which in turn affects the company's sustainability (Pujiasih, 2013).

Therefore, the accepted hypothesis in this study indicates that proper and comprehensive SR disclosure to the public will generate positive responses from stakeholders and the surrounding community, especially through the evaluation of Socio Environmental Performance using the PROPER indicator. This finding is consistent with the research conducted by (Setiawan et al., 2018) which shows that Socio Environmental Performance positively and significantly impacts SR.

The Influence of Socio Environmental Costs on Sustainability Report (SR)

From the Booststrapping process in SmartPLS software version 4.0.9.1, it was found that the path coefficient value is -0.071, with a T-Statistics value of 0.680 < 1.988 (T-Table value), and the significance test of the probability value (p-value) is 0.497 > 0.05. Therefore, it can be concluded that Socio Environmental Costs do not significantly impact SR in manufacturing companies listed on the Indonesia Stock Exchange (BEI) from 2019 to 2021. Thus, H6 is rejected.

The reason for the negative and insignificant influence of Socio Environmental Costs on Sustainability Report is that the company's efforts to manage its environmental impacts tend to remain the same every year, resulting in the company disclosing the same information annually. The allocation of Socio Environmental Costs by the company does not guarantee diversity in SR activities, hence the company does not disclose the activities undertaken to prevent and address environmental damage uniformly.

The allocation of Socio Environmental Costs by the company does not ensure broad environmental disclosure because the allocation of funds is not evenly distributed across all aspects of SR activities. This finding is consistent with the research conducted by (Siregar et al., 2022) which shows that Socio Environmental Costs do not significantly influence SR.

The Influence of Company Size on Sustainability Report (SR)

From the Booststrapping process in SmartPLS software version 4.0.9.1, it was found that the path coefficient value is 0.272, with a T-Statistics value of 2.942 > 1.988 (T-Table value), and the significance test of the probability value (p-value) is 0.003 < 0.05. Therefore, it can be concluded that company size positively and significantly influences SR in manufacturing companies listed on the Indonesia Stock Exchange (BEI) from 2019 to 2021. Thus, H7 is accepted.

The above test results indicate that the total assets, which reflect the company's size, impact the disclosure of Sustainability Report (SR) information. However, it should be noted that larger companies do not necessarily disclose SR more extensively than smaller companies if they do not perceive SR disclosure policy as beneficial to the company. This finding is consistent with previous research conducted by oleh (Purba & Yadnya, 2015) which states that company size has a positive and significant influence on Sustainability Report.

The Influence of Socio Environmental Performance on Financial Performance with Sustainability Report (SR) as Mediating Variable

Based on the Booststrapping process in SmartPLS software version 4.0.9.1, it was found that the path coefficient value for the influence of Socio Environmental Performance on financial performance with Sustainability Report (SR) as mediating variable is -0.137. This influence has a probability value (p-value) of 0.027 < 0.05, indicating that SR can serve as mediating variable that connects the influence of Socio Environmental Performance on financial performance. Thus, hypothesis H8 is accepted.

Socio Environmental Performance serves as an indicator of disclosure in Sustainability Report (SR). Therefore, if Socio Environmental Performance is good, the company's social responsibility will also be good. The impact of Sustainability Report activities can enhance the legitimacy of the company, leading to a positive image that contributes to the sustainability of the company (Pujiasih, 2013). This positive image obtained by the company will be viewed favorably by stakeholders. Such positive responses ultimately contribute to improved financial performance through increased sales, profitability, and the acquisition of additional capital. This finding is consistent with previous research conducted by (Setiawan et al., 2018), which indicates that Socio Environmental Performance has a positive and significant influence on financial performance with Sustainability Report as an Mediating variable.

The influence of Socio Environmental Costs on Financial Performance with Sustainability Report (SR) as an Mediating variable

The results obtained from the Booststrapping process using SmartPLS software version 4.0.9.1 indicate a path coefficient value of -0.027. The significance value (p-values) for this influence is 0.497 > 0.05, implying that SR cannot be considered an Mediating variable connecting the influence of Socio Environmental Costs to Financial Performance. Therefore, H9 is rejected.

The quality of Sustainability Report activities cannot be determined based on the amount of Socio Environmental Costs. The expenditure on Socio Environmental Costs does not guarantee the extent of Sustainability Report activities carried out by the company, especially considering that the majority of Socio Environmental Cost data in this study falls into the low category. However, effective Sustainability Report can be seen as good news for stakeholders and can lead to positive responses from stakeholders, benefiting the company, especially in financial terms. The lack of significant influence from Socio Environmental Costs on Sustainability Report proves that the indirect influence of Socio Environmental Costs on financial performance through Sustainability Report is weak. These findings align with a previous study conducted by (Siregar et al., 2022) , which concluded that Socio Environmental Costs do not significantly influence financial performance when Sustainability Report is considered an Mediating variable.

The Influence of Company Size on Financial Performance with Sustainability Report (SR) as Mediating Variable

From the Bootstrapping process using SmartPLS software version 4.0.9.1, a path coefficient value of -0.104 was obtained. The associated significance value (p-values) for this influence is 0.021 < 0.05, indicating that SR can be considered as mediating variable that connects the influence of Company Size to Financial Performance. Thus, H10 is accepted.

The acceptance of Sustainability Report as a mediation between the influence of company size and financial performance demonstrates that as the number of assets (company size) increases, the company will engage in more SR disclosures (Nur & Priantinah, 2012). The presence of Sustainability Report as a mediating variable also strengthens the existing influence. This is because, in addition to large companies being considered relatively stable and capable of generating high profits (Aprianingsih, 2016), they also receive greater attention from stakeholders (Yao et al, 2011). Stakeholders perceive such companies not only as financially attractive but also as socially and environmentally responsible. The positive perception from stakeholders provides advantages to the company, ultimately leading to improved financial performance. This perspective aligns with Nur & Priantinah's view (2012) that the larger the number of assets (company size), the more Sustainability Report is disclosed by the company. Based on this, the relationship between company size and financial performance can be moderated through the company's social responsibility.These research findings are consistent with a previous study conducted by (Meiyana & Aisyah,

2019) which stated that company size has a positive and significant impact on financial performance when Sustainability Report is considered as an Mediating variable.

CONCLUSION, IMPLICATION, AND LIMITATION

The findings of this study reveal several significant insights into the relationships between socio-environmental and financial factors within the context of manufacturing companies. First, socio-environmental performance has a positive and significant impact on financial performance, underscoring the importance of integrating environmental considerations into corporate strategies to achieve better financial outcomes. Companies that prioritize socio-environmental initiatives may benefit from enhanced stakeholder trust and improved long-term profitability.

Conversely, socio-environmental costs exhibit a negative and significant influence on financial performance, suggesting that excessive expenditures on environmental management can strain a company's financial resources. This highlights the need for businesses to balance their environmental responsibilities with cost efficiency to maintain financial stability.

The results also indicate that company size does not have a direct significant effect on financial performance. This finding challenges the conventional assumption that larger companies inherently achieve better financial outcomes and suggests that other factors, such as operational efficiency and strategic management, may play more critical roles.

In terms of sustainability reporting (SR), the study finds that it negatively and significantly affects financial performance. While sustainability reporting enhances transparency and corporate accountability, its financial benefits may not be immediately realized, requiring companies to carefully consider the long-term implications of SR practices.

Socio-environmental performance positively and significantly influences sustainability reporting, demonstrating that environmentally conscious companies are more likely to engage in robust reporting practices. However, socio-environmental costs do not significantly influence sustainability reporting, implying that the allocation of such costs does not necessarily translate into more comprehensive disclosures.

The influence of company size on sustainability reporting is positive and significant, suggesting that larger firms have greater capacity and resources to implement and disclose sustainability practices. Furthermore, sustainability reporting serves as a mediating factor in the relationship between socio-environmental performance and financial performance, as well as between company size and financial performance. However, it does not mediate the relationship between socio-environmental costs and financial performance.

These findings underscore the nuanced dynamics between socio-environmental practices, sustainability reporting, and financial performance, providing valuable insights for policymakers and corporate decision-makers aiming to enhance sustainability and financial success.

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