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# Exploring The Determinants of Supply Chain Social Sustainability Disclosure for Indonesian Banking

Frihardina Marsintauli [a,*], Eka Novianti [a], Roni Patar Situmorang [a]

[a] Accounting Department, BINUS Online Learning, Bina Nusantara University, Jakarta, 11480, Indonesia
Corresponding author: *frihardina.marsintauli@binus.ac.id

***Abstract*— Supply chain transformation that focuses on sustainability encourages companies not only for business growth but also to improve the welfare of the people along the supply chain. The company considers business decisions to reduce environmental impacts arising from the supply chain and positively impact society. Banking has a close relationship with technological developments that strongly support the banking business processes in producing customer services. This study aimed to identify and analyze the factors that influence a banking sector's disclosure of a sustainability report. This quantitative research uses data processing with multiple regression analysis by using SPSS. The research object is a company engaged in the financial services sector listed on the Indonesia Stock Exchange in 2017-2019 with a purposive sampling method. This study indicates that only foreign ownership has influenced sustainability report disclosure. In contrast, profitability, leverage, the board of directors, and the audit committee have no effect. Characteristics and culture of foreign parties who are very concerned about the future risk of the business activities believed able to encourage Indonesian Banking to make changes to business processes and tend to pay attention to the resulting business impact and weigh the business risks that arise in the future. This will lead to sustainable changes in the company and the stakeholders in the utilization of resources, processes, and business outputs generated. Banking in Indonesia should transform into a supply chain strategy concerned with the quality of disclosure of the company's business sustainability on social, environmental, and economic aspects.**

***Keywords*—Sustainability; disclosure; profitability; leverage; GCG; foreign ownership.**

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## I. INTRODUCTION

One of the sustainable activities within the company has a movement to develop ways to grow business and improve community performance along the supply chain. The impact of business processes exploiting high energy and having no commitment to record or reduce consumption makes the world experience a severe environmental crisis [1]. Using eco-friendly supplies by involving the community in the business process can create a sustainable business cycle for social and environmental reasons. It evaluates and switches the supply chain towards environmentally friendly production processes with the output of products or services that do not potentially damage the environment. SRD to evaluate supply chain with GRI index guideline influenced company value. This result follows the theory, which says that the company is not an entity that only operates for its own sake but must benefit its stakeholders. If the company can maximize the benefits received by stakeholders, satisfaction will arise, increasing its value [2] and significantly influencing its market performance [3]. These three aspects will show the company's contribution to global and local economic development to prove its concern for the environment and its social contribution to society. They will improve the company's image in the eyes of the public, thereby improving the company's vision of market performance.

According to John Elkington in Triple Bottom Line, companies report the company's condition from the profit side and write on the company's social (people) and environmental (planet) responsibility. Measuring a business using the Triple Bottom Line is one of the best markers of its sustainability and profitability. The results support several previous studies which found that the higher the disclosure aspects of sustainability reports, namely economic, environmental, and social, the higher the company's market performance [3], [4], [5]. Tyas and Khafid [4] define corporate sustainability as a company's commitment to contribute to developing a sustainable economic level and working with employees and their families, communities, and surrounding communities to improve their quality of life. Anggraini, Renalita, and Tanjung [2] state that sustainable supply chain development is necessary to implement because current economic activities tend to destroy global ecosystems and hinder the needs next generation. Sustainable supply chain reporting provides company information to stakeholders to support sustainable development. There is a new paradigm in the manufacturing process called the sustainable manufacturing process [6]. A sustainable manufacturing process is a manufacturing process that integrates social, environmental, and economic factors in the production process to produce and extend the life product cycle by using technology that is safe for stakeholders and with minimal waste of resources. So that future generations can meet their needs.

The disclosure of sustainability reports (SRD) by companies in Indonesia is relatively low. In financial services companies in 2017-2019, out of 97 companies, only 12 financial service companies had an SR consistently, and 85 companies did not have an SR. With government intervention that requires companies to carry out environmental responsibility, it becomes an essential role for the SRD. SRD in Indonesia is still low, with an average disclosure of only 32% [4]. SRD in most countries, including Indonesia and Malaysia, is still voluntary, meaning that companies freely publish, and there are no mandatory rules. Although Indonesia has seen an increase in companies disclosing SR, they are still in the minimum range for SRD [7]. Tyas and Khafid [4] explain that SRD in Indonesia is still low, with an average disclosure of only 32%. The government plays an essential part in implementing SR for companies. Government intervention that requires companies to carry out environmental responsibility becomes an essential role for the SRD. According to Ika et al. [8], CSR reporting rates increased in the agricultural industry at the announcement. It implies that companies will disclose reports by force, not voluntarily. For this reason, it is necessary to have clear and precise government regulations to regulate CSR reporting to achieve the goal of paying attention to essential aspects of life around them.

Several previous studies have explained that company characteristics such as profitability, leverage, and decision-making activities by management such as a board of directors (BOD), Audit Committee (AC), and foreign ownership can encourage companies to disclose sustainability reports. Companies with high profitability tend to disclose voluntary information to show that they can optimally manage profits [8], [9]. However, on the other hand, companies with high profitability do not care about voluntary disclosures because they focus on information to attract investors [10], [11], [12]. Low leverage levels do not affect companies disclosing SR because it is considered that it will require high costs and affect the profits obtained [9], [13]. In practice, the company's implementation incurs costs to obtain long-term benefits as part of an investment to improve reputation and risk assessment that may arise from the performance of a sustainable supply chain.

For this reason, it is necessary to have a manager's role in reducing the importance of social interaction [14]. The controlling holders in the company are expected to be able to take strategic decisions to increase profits and company image in society by disclosing SR. On the other hand, BOD [15], Audit Committee [9], [16], and foreign ownership [17] [18] chose to focus on issues related to mandatory regulations with severe sanctions, focusing on market analysis related to business profits.

The business flow of a company will support each other on various parties starting from the activity to the end. The supply chain is a business activity directly involved from the beginning of the business process to the result, service, finance, and/or information from source to customer [19]. It is necessary to decide what kind of business process the company should carry out according to environmental, social, and economic aspects. Chain management is a series of activities needed to plan, control, and run products to improve the long-term of the company and the supply chain as a whole [19]. Supply chain management is expected to optimize the resources and costs incurred by the company in carrying out business processes. Facilities, inventory, marketing and distribution channels, customers, suppliers, information, and information technology are the leading roles in creating a supply chain.

In contrast to trading or manufacturing companies, where the final output is a product, services cannot be stored to avoid changes in supply and demand. Service cannot be carried out without the customer's information or request with prior planning and preparation when the service arrives. Supply chain services are more responsive than product supply chains in general [20]. In Fig. 1, the bank currently liaises between suppliers, customers, and producers in their business activities. The existence of banking activities that play an essential role in developing the positioning system shows a close dependence on a business process. As much as possible, the part of banking is closely related to meeting needs in services.

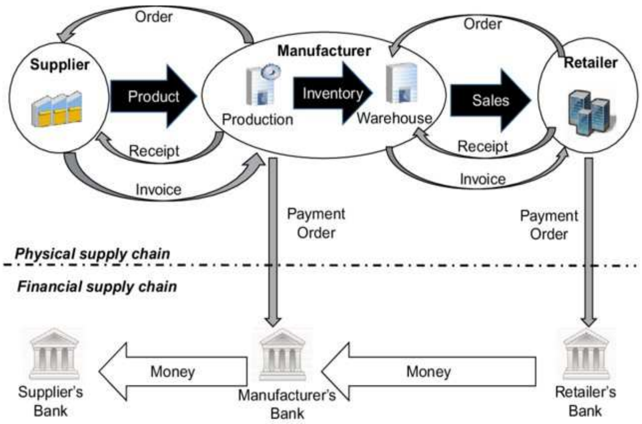


Fig. 1 Physical and Financial Supply Chain in Banks [20]

Banking services that prioritize sophisticated and reliable technology systems can provide services that greatly support the progress of a business. The use of internet banking that can be accessed on mobile or laptop, ATM services, and AI in banking operations creates a sense of bank presence close to customers. In Fig.2, it is clear how the bank's development is seen from the use of sophisticated technology that focuses on fintech, partner ecosystems, customers, and employees. The sophistication and security of technology demand Banking in the open market competition and contribute to answering the company's sustainability problems, including environmental, social, and economic aspects.

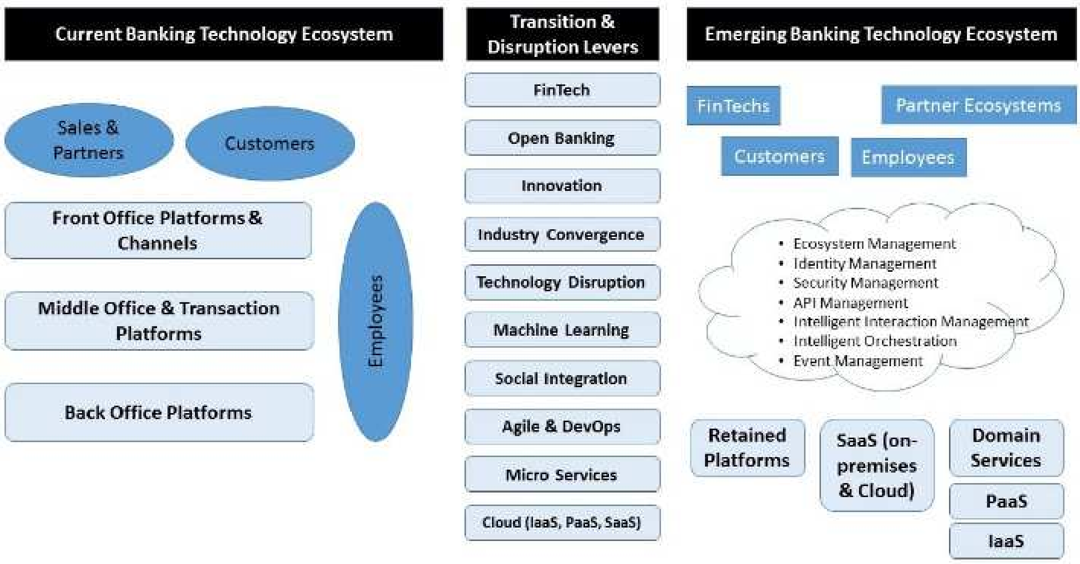


Fig. 2 Physical and Financial Supply Chain in Banks [31]

GRI Index guidelines show attention to environmental, social, and economic aspects that lead to significant players in the success of a Sustainable supply chain. The information written in the report proves that the company is committed to providing information that is not right for the stakeholders. There is information given the background of suppliers who support green activities, the role of companies in reducing carbon, waste, and excessive energy use and behavior towards employees, and responsibility towards products and customers, which makes this report critical in the liaison issues lead to the company.

Fig 2 shows a green design, which is the initial stage of running a green supply chain. Generally, companies are initiating voluntary supply initiatives for their future value. Although the causal mechanisms identified in the literature are positively or negatively related to financial or economic gain, the research assumes that the firms involved in this process will ultimately realize positive financial gains [21].

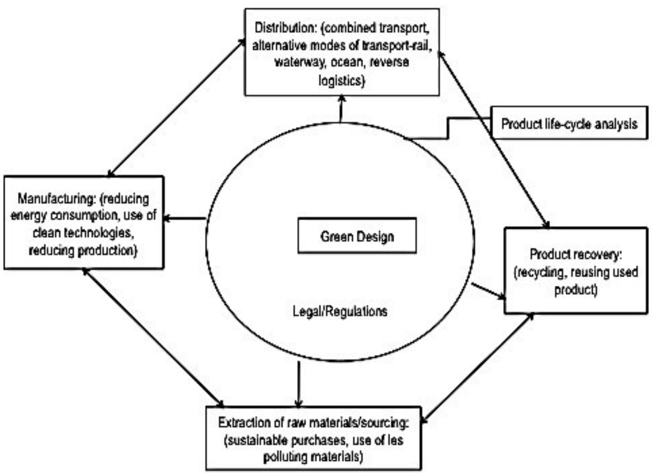


Fig. 3 Green Supply Chain Management [40]

Based on the background of the problems that have been presented, it can be concluded that there is still a lack of companies in Indonesia disclosing SR and that the government and financial organizations continue to try to attract entrepreneurs to carry out and make this SR. The research framework designed in this study is shown in Fig.4.

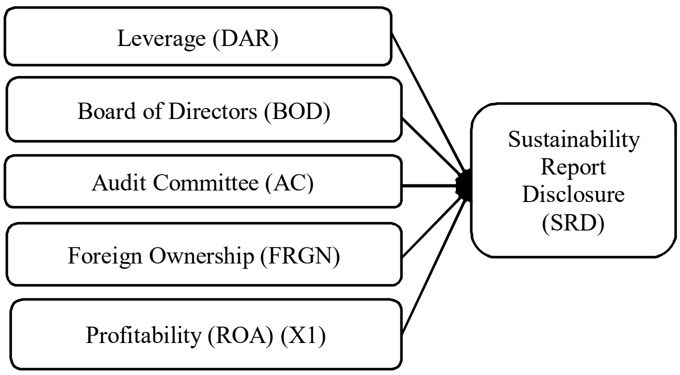


Fig. 4 Research Framework

## II. Materials and Method

The research method is a quantitative research method using multiple linear regression analysis with SPSS statistical test. Data were mainly collected from secondary sources. As the study needs historical financial data from corporate reports, accessing publicly available data is assumed to be a suitable method for the accuracy of the data. The measurement of the SRD variable is based on the reference to the GRI Index, which contains the dimensions of economy, environment and social/employment, human rights, society, and product responsibility. The researcher will calculate the value of the SR disclosure by comparing it with the total GRI index by giving a score of 1 if one item is disclosed and 0 if it is not disclosed. The population that is the object of the research is the financial services company listed on the IDX and has accessible financial reports for 2017-2019. Determination of the sample in this study will use the purposive sampling method. The results of the sample selection are shown in Table 1.

TABLE I
RESEARCH SAMPLE SELECTION RESULT

| Criteria | Company |
|---|---|
| Financial services companies listed on the IDX during the 2017-2019 period. | 97 |
| Financial services companies that do not consistently issue a complete SR for the period ended December 31 on the financial statements for 2017-2019 | (85) |
| Total Number of Companies | 12 |
| Research Period | 3 |
| Total Number of research samples used | 36 |

### *A. The Operational Definition and Measurement of Variables*

The table of operationalization of this research variable is shown in Table 2.

TABLE II
OPERATIONAL VARIABLE

| Variable | Proxy |
|---|---|
| SR Disclosure | SRD = ∑item disclosure / GRI items |
| Profitability | ROA=Net Profit / Total Asset |
| Leverage | DAR =Total Amount of Debt / Total Asset |
| BOD | Total BOD meeting in one year |
| AC | Total AC meetings in one year |
| Foreign Ownership | Number of foreign shareholding / Total Number of shares outstanding |

## III. RESULT AND DISCUSSION

### *A. Descriptive Statistics*

Based on the results of this study, it was found that among financial service companies listed on the IDX during the 2017-2019 period, as many as 97 companies, only 12 companies consistently disclosed SR. It shows that banking companies in Indonesia are not acting on essential matters of the report. [12] explain that companies that care and activities within the company's goals will have higher disclosure. The descriptive statistics are shown in Table 3.

TABLE III
DESCRIPTIVE STATISTICS

| | N | Min | Max | Mean | Std. deviation |
|---|---|---|---|---|---|
| SR | 36 | 0,06 | 0,46 | 0,1857 | 0,09166 |
| ROA | 36 | 0,00 | 0,03 | 0,0131 | 0,00920 |
| DAR | 36 | 0,28 | 0,94 | 0,8022 | 0,15882 |
| BOD | 36 | 21 | 281,00 | 52,9722 | 48,90602 |
| AC | 36 | 9,00 | 30 | 17,0556 | 5,11549 |
| FORGN | 36 | 0,0 | 0,98 | 0,4347 | 0,32630 |
| Valid N (listwise) | 36 | | | | |

Table 3. presents the data that has been successfully generated by meeting the economic, environmental, and social aspects of the Global Reporting Initiative (GRI) standard on average in companies based on a GRI of 18.57%. However, companies still only disclose in the SR report 6%. The profitability has an average of 1.31%, meaning that the increase in profitability shows that the company manages its assets to generate profits. Leverage (DAR) has an average of 80.22%, which means that the higher the leverage, the company's risk of default on debt obligations. The average number of committee meetings (BOD) held in one year is 53 times, and the number of committee meetings (AC) held in one year is an average of 17 meetings. Foreign ownership has an average value of 43.5%.

TABLE IV
PERCENTAGE OF SRD BASED ON GRI STANDARDS

| No | Category | Disclosure | Percentage of Disclosure |
|---|---|---|---|
| 1 | Economic | 9 of 17 items | 53% |
| 2 | Environmental | 25 of 32 items | 78% |
| 3 | Social | 23 of 40 items | 58% |

Table 4 shows that the highest Indonesian banking in Indonesia discloses environmental aspects, especially on GRI:302 related to energy use, followed by social and economic factors. The company that disclosed the most items associated with GRI was Bank Jabar in 2019, with 41 items.

In the GRI index, the focus is that business processes, namely the input, process, and output sections based on the triple bottom line, namely paying attention to economic, environmental, and social aspects, are an essential part of measuring the sustainability of a company. One is the importance of the supplier side, which plays an essential role in the supply chain in a sustainable business process. From the disclosure results, the existence of GRI:204 (Economic Category) related to procurement practices in only two of the 12 companies disclosed. GRI 204 highlights the negative impacts on the supply chain, including stability or length of relationship with suppliers, production period from start to finish, order and payment routines, purchase prices, and change or cancellation of orders.

There are initiatives in supplier selection. Locally based and company traceability regarding the production process's source, origin, or condition. It is expected that the company can choose suppliers selectively, starting from the supplier's background to the final process of agreeing on the goods or services. Related to GRI:414 (Social Category) related to the supplier's social assessment. Suppliers can be assessed against several social criteria, including human rights, such as child labor and forced or compulsory labor); employment practices; health and safety practices; industrial relations; incidents (such as abuse, coercion, or harassment); salary and compensation; and working hours. The result is that the entire company made no supplier’s social assessment disclosure. The lack of disclosure related to supplier selection indicates that banks have not yet focused on the supplier selection process adjusted to the GRI standard.

### *B. Hypothesis Result*

This study meets all the criteria for testing the classical assumption. The normality and heteroscedasticity test result shows that this regression model is between liquidity, profitability, and firm size as an excellent dependent variable in this study. The following are the results of multiple regression analysis. The results of the sample selection are shown in Table 5.

TABLE V
HYPOTHESIS TEST RESULT

| Model | Unstd Coeff B | t | Sig |
|---|---|---|---|
| (constant) | 0,157 | 1,798 | 0,082 |
| ROA→SRD | -3,560 | -1.901 | 0,067 |
| DAR→SRD | 0,199 | 1,928 | 0,063 |
| BOD→SRD | -5.195E-5 | -0,166 | 0,869 |
| AC→SRD | -.001 | -0,414 | 0,682 |
| FORGN→SRD | -.135 | -2,692 | 0,012 |

Based on the result of hypothesis testing, the first independent variable is profitability which is proxied by the ROA ratio with a significant level of 0.067 > 0.05. From these results, it can be concluded that it does not affect the SRD. According to Agrawal [32], profitability is a ratio that reflects an entity's ability to convert sales of revenue into profit and its ability to generate income from investment in its assets. It can be concluded that the higher the ROA, the better the company's productivity using assets to generate income. Companies engaged in financial services in the observation period in this study focused on increasing revenue by maximizing existing assets, not fully disclosing other information to increase profits. The higher the ROA does not affect the company's desire to disclose an SR. The SR disclosed separately is considered a voluntary disclosure by the company. The company does not focus on a separate SR from the annual report but on disclosing financial information that shows the company's good performance. The results of this study are not following the legitimacy theory that the higher the profitability, the better the SRD that describes the company's performance so that the company can be seen as good by the public [9].

The results are in line with some previous studies [10], [12], [22], [23], [24], but are not in line with the research of Harymawan et al. [7] and Lucia and Panggabean[9]. Putu, Dewi, and Suaryana [23] explain that profitability does not affect the extent of CSR disclosure. The score for calculating CSR does not involve money, so a higher score does not necessarily indicate that CSR activities are in a more significant amount of money. Disclosure is carried out in the context of accountability to stakeholders to maintain, support, and fulfill their information needs. In addition, companies with high ROA values do not necessarily carry out SRD because it is still voluntary in Indonesia, and there is no suitable control mechanism from the government [10].

Based on the results of hypothesis testing, the second independent variable is leverage which is proxied by the DAR ratio with a significant level of 0.063> 0.05. From these results, it can be concluded that leverage does not affect the SRD. It shows that the size of the leverage of financial services companies does not affect the SRD. The results of this study are supported by Lucia and Panggabean [9], and Tobing [13], but are not in line with research by Doktoralina et al. [10]. Lucia and Panggabean [9] explain that the higher the leverage, the more likely the company will violate the loan agreement, so the company will try to report higher income, which can be one way to reduce costs, including the cost of disclosing social information. The research of Tobing [13] explains that the level of leverage does not affect companies disclosing SR because companies can reduce costs to get high profits. The costs for making SR are high, one of which is maintaining its website. For example, in this study, Bank KB Bukopin Tbk. in 2017 had the highest leverage value of 14.75 with an SR disclosure score of 0.33 or 29 disclosures, and Bank Mandiri (Persero) Tbk. In 2017 it had the lowest value in SRD of 0.06 or 5 SRD in 2017, and it has a leverage of 5.22, which is smaller than Bank Bukopin. Here it can be seen that the company's high and low leverage does not affect its SRD.

Based on the results of hypothesis testing, the third independent variable is the BODs which is proxied by the number of meetings held by the BODs with a significant level of 0.869 > 0.05. From these results, it can be concluded that the BOD does not affect the SRD. The results of this study are supported by some previous studies [9], [15], [25]. Hasanah, Syam, and Jati [15] explain that one good corporate governance practice is holding regular meetings between company organs. From this theory, the researcher concludes that the greater the average level of attendance of the board of commissioners, BOD, and AC meetings should affect the SRD. However, the results of this study contradict this theory. The results of the discussion in the meeting only discuss the company's performance which is more focused on mandatory reports. As an example of the results of this study, the company Bank Mandiri (Persero) Tbk. Held 51 internal BODs' meetings, but the SRD remained small at 0.0562 or 51 times in 2017, and the West Java Regional Development Bank held 27 internal BODs' meetings. Times in 2019, but the highest SR disclosure was 0.46 or 41 times. It proves that the number of BODs' meetings held at financial service companies does not affect the SRD. The meetings do not discuss in detail SRD but discuss external activities and company operations such as product and technology development, human capital, performance evaluation, and others.

Based on the results of hypothesis testing, the fourth independent variable is the audit committee which is proxied by the number of meetings held by the company's audit committee with a significant level of 0.682 > 0.05. From these results, it can be concluded that the audit committee does not affect the SRD. It shows that communication between audit committee members in the form of annual periodical meetings has not been effective in encouraging companies to comply with regulations regarding the SRD, even though these regulations are voluntary disclosures. The results of this study are supported by some studies [9], [13], [16], which state that the audit committee does not affect SR disclosure but is not in line with Hidayah, Badawi, and Nugroho [26], which states that audit committee meeting has a significant positive effect on the SRD. Tobing [13] explains that the committee's task is to supervise financial reports and analyze external reports rather than discuss the disclosure of social and environmental information so that the audit committee meeting does not affect the SRD.

Based on the results of hypothesis testing, the seventh independent variable, foreign ownership, have a significant level of 0.012 < 0.05. From these results, it can be concluded that company ownership influences the SRD. The results of this study are supported by [23], [27], [28] but are not in line with the research of [17], [22], [23], that explained that foreign ownership in a company could improve the monitoring process to provide management information to company stakeholders. It also shows that, in general, foreign ownership in Indonesia is concerned. Force the company to be concerned about social, economic, and environmental issues as critical issues that must be extensively disclosed in the company's annual report because they do not want to lose their investment due to bankruptcy or regulatory sanction [28]–[30]. Associated with stakeholder theory, namely, the more influential the position of stakeholders, the greater the impetus to realize the wishes of the stakeholders, namely by disclosing the SR as a form of accountability for the activities carried out by the company.

Furthermore, foreign shareholder advice makes sense, reduces agency costs, and sends a positive signal to the market on management's commitment to sustainable development [30]. Companies that consistently contribute to the local community and support them can ultimately help the company improve its reputation [31]. For this reason, foreign shareholders will try to maintain the company's image so as not to cause losses. Table 6. shows that the sig value obtained in the F test is 0.032 <0.05. It can be concluded that profitability, leverage, BOD, AC, and foreign ownership simultaneously had significant effects on SR disclosure.

TABLE VI
F TEST RESULT

| Model | Sum of Squares | Df | Mean Square | F | Sig |
|---|---|---|---|---|---|
| Regression | 0.095 | 5 | 0.019 | 2.857 | 0.032 |
| Residual | 0.199 | 30 | 0.007 | | |
| Total | 0.294 | 35 | | | |

## IV. CONCLUSION

This study was conducted to obtain evidence regarding profitability, leverage, BODs, ACs, and foreign ownership of the SRD. Only foreign ownership affects the SRD, and profitability, leverage, board of directors, and audit committee partially do not affect the SRD. The higher the share ownership by foreign parties in a company, the higher and better the SRD. Because in general, foreign ownership in Indonesia is concerned about social, economic, and environmental issues as critical issues that must be extensively disclosed in the company's annual report. The company sends a positive signal about the best commitment to sustainable development to the market. With the pressure from foreign ownership, the company will immediately consider evaluating and shifting a series of financial service flows to businesses that play a role in preventing environmental damage and behavior that reflects social awareness. With the commitment to carry out supply chain management that considers social, economic, and environmental aspects, the company will undoubtedly disclose more in the company's SR. The massive use of technology in Indonesia's banking system shows a change in the way of working and optimal services for customers, suppliers, and internal companies. The use of a safe internet provides convenience and security for customers. It will connect employees, customers, and suppliers to support sustainable business processes by minimizing environmental damage.

Based on the discussion and conclusions of this study, some suggestions can be given for financial services companies. Companies are expected to disclose SR consistently because the function of the SR is a form of company concern in economic, social, and environmental aspects. Stakeholders such as the board of directors, audit committee, and shareholders can encourage disclosing other non-financial information and foreign companies outside Indonesia that pay more attention to social and environmental issues. The government is expected to be serious in regulating the SRD. Based on the results of this study, during the 2017-2019 period, as many as 97 companies, only 12 companies consistently disclosed SR even though financial services companies are public companies that have a big responsibility in managing several public funds. The financial population performs separate disclosures as a form of compliance and the company's commitment to supporting the disclosure of economic, social, and environmental aspects.

For further research, researchers are advised to use other sector companies as research samples, such as the trade, services, and investment sectors and the property, real estate, and building construction sectors. Researchers are advised to extend the research period to more than three years. The results showed that the independent variables in this study, profitability, leverage, BOD, audit committee, and company ownership, had a contribution effect of 21.0% on the dependent variable or SRD. In comparison, the remaining 79% was influenced by other factors. Other variables outside this research. Researchers are expected to add or use other independent variables to explain what factors can affect the SRD, such as adding intellectual capital variables, Loan Deposit Ratio, BOPO, and other variable indicators, such as the use of the DER indicator for the leverage variable.

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