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Individual Characters for Sustainability Reporting

Boby Wiryawan Saputra^{*a}, Hamfri Djajadikerta^b and Majidah^c

^aHarapan Bangsa Business School, Indonesia

^bParahyangan Cbatolic University, Indonesia

^cTelkom University, Indonesia

Abstract: The society's need for a comprehensive report on the company's business activities is based on the number of cases related to financial reporting, and environmental and social issues. Financial reporting is used as one of the media to deliver information to the public. However, financial reporting is often misused for the company's advantage, by not reporting the financial conditions based on the actual conditions. People often don't know the window dressing that the company does has an impact on the wrong decision-making. In addition to the consideration of financial statement manipulation, environmental and social issues become a matter to be concerned. A number of cases related to the environment and social have an impact on the wider community in Indonesia. Disclosure of business activities related to the environment and social becomes important for the community. Sustainability Reporting (SR) is a form of concern for environmental and social aspects. SR will have an impact on long-term sustainability development for the company. Contingency theory states that every different situation will produce different conditions. Culture is one of the contingency factors for the company. The test results indicate that culture is an important factor in SR disclosure.

Keywords: Sustainability Reporting, culture, environment, social.

INTRODUCTION

The global financial crisis, resource constraints, and climate change would like to show the society that the company is facing a situation that is complex and full of uncertainty, so companies need to make long-term plans by doing corporate management. The most phenomenal case is the collapse of the American giant companies Enron and Worldcom, until the early 21st century is the case of the fall of HIH and One-tel in Australia. One of the causes of the major crises is the lack of awareness of the importance of good corporate management (Syakhroza, 2005). Similar cases occur in Indonesia, namely: the case of blazing mud in Sidoarjo, the pollution of Buyat Bay in South Minahasa by PT. Newmont Minahasa Raya, and the conflict of people in Aceh with Exxon who manages natural gas in Arun (Sari & Marsono, 2013; Nasir,

Ilham, & Utara, 2014). The society's need for a comprehensive report on the company's business activities is based on the number of cases related to financial reporting, and environmental and social issues. Financial reporting is used as one of the media to deliver information to the public. However, financial reporting is often misused for the company's advantage, by not reporting the financial conditions based on the actual conditions. People often don't know the window dressing that the company does has an impact on the wrong decision-making.

In addition to the consideration of financial statement manipulation, environmental and social issues become a matter to be concerned. A number of cases related to the environment and social have an impact on the wider community in Indonesia. Disclosure of business activities related to the environment and social becomes important for the community. The society's ignorance of business activities and company's business management gets them mistaken in judgment and decision making. The wrong decision will have an impact on various aspects such as economy, environment, and social. Companies with low level of awareness yet benefiting from society will make the environment and social affected, and have a bad impact on the environment and social sustainability.

Disclosure of economic, environmental, and social aspects is required as a part of a comprehensive report for the society and companies in decision making as well as environmental sustainability where the companies conduct their business activities.

In developing countries, the disclosure of environmental and social aspects has not been broadly carried out considering the characteristics of Eastern people who tend to be more closed compared with Western people. It is undeniable that the Eastern people who tend to be closed lack the awareness of the importance of SR disclosure, therefore the Eastern people is relatively reluctant to disclose SR information in its annual report. The lack of awareness is because the developing countries are relatively focused more on improving the economic aspects than the environmental and social aspects. Companies in the developing countries are focusing on profitability improvement rather than thinking about the long-term benefits of disclosure of environmental and social aspects. As a matter of fact, the benefits gained for the company and society is very big. For the company, it can provide a signal of existence and establishment and corporate responsibility. As for the society, they will be able to look after and gain information about the real and comprehensive condition of the company.

The difference between Western and Eastern people in terms of culture can further be seen from the disclosures reflected from the company reporting. Western people values professional and individualism value as part of corporate reporting. This Western culture makes the companies in the West have more transparency or openness in corporate reporting. In contrast with the Eastern people who appreciate the value of kinship and collective, so that they tend to be more closed in revealing corporate reporting (Amat, Blake, Wraith, & Oliveras, 1999). Eastern people tend to be closed and conservative, represented by countries in Asia. The countries in Asia tend to be more closed in terms of Publication of Sustainability Report (SR) and obedient to the regulations (Williams, 1999). Meanwhile Western people represented by countries in America and Europe tend to be more open in terms of Publication of Sustainability Report (SR), and more flexible in terms of regulations (Xiao, Gao, Heravi, & Cheung, 2005). Some companies consider that the high cost of SR and the absence of problems related to social environment, become one of considerations not to have SR done.

China, India and Indonesia are the three countries with huge economic opportunities and developments in Asia, these three countries are making efforts to improve the “low carbon consumer behavior” program in relation with environmental responsibility, because more than 40% of urban consumers are in China and India. So, on this basis companies are faced with their social responsibility to the stakeholders (Kering.com, 2013). China and India show favorable market growth as developing countries in emerging market and achieve top-scoring consumer of the 2014 Greendex (National Geographic, 2014; Sihombing, 2013; WFE, 2009; Setneg, 2007; Indonesia Stock Exchange, 2010; SSM, 2015; Suttipun & Stanton, 2012). The low SR publication of the three countries shows the low transparency of corporate information in each country. Indonesia, China and India are Asian countries, where Asia is part of Eastern society that has a tendency to be closed to information, is conservative, and has a high sense of kinship (Williams, 1999; Xiao, Gao, Heravi, & Cheung, 2005). The disclosures in the three countries differ from each other. Although Asia has a tendency to be closed, but each country in Asia has different levels of disclosure (Eng & Mak, 2003; Kamla, 2007). The differences in culture in each country has an impact on the SR disclosure (Wang, Sewon, & Claiborne, 2008).

The differences in characteristics in each country is caused by the differences in culture embraced by the local society in that country (Suttipun & Stanton, 2012). The differences in the embraced culture will have an impact on the individual role in the company. Individuals in the company are part of a certain society that has values and different cultures. The difference will affect the existence of individuals in running business activities in the company. Culture becomes a signal for SR disclosure. The role of individuals with culture makes SR disclosure workable. Culture in terms of openness or transparency to environmental and social aspects becomes one of the strengths besides economic aspect. Research conducted by focusing on cultural aspects has not been done, especially in Asia. Manufacturing companies in Indonesia, China, and India involve individuals in making decision. Therefore individual culture is an important factor that determines whether the disclosure of SR information will be carried out or not. Culture gives contribution to the disclosure of SR information. The increasing SR information disclosure will gain the public’s trust to the company. This study intends to observe the cultural factors that affect SR disclosure in manufacturing companies in Indonesia, India and China.

THEORY

Over time, companies continue to experience development until important aspects like market process becomes an important factor for the company in order to get sustainability of their business. The classical model in corporate theory states that the company’s goal itself is to maximize profitability through the owners or management. The model was developed by Williamson (1964) and Marris (1964) through an explanation of management behavior in its mathematical equations. The presence of the stakeholder theory is a shift for the shareholder theory. Freeman, Harrison, Wicks, Parmar, & Colle (2010) state that internal and external parties influence the value of company’s behavior or entity, in addition to shareholders as a role in the company’s economic model. This stakeholder theory expresses the existence of moral relationships with groups outside of the shareholders, so that the organization morally acts and takes responsible. Companies should be indeed aware of the interests of a group in creating a value by managing the business effectively. Effective management will have a good and accountable impact on all stakeholders within the company (Freedman & Stagliano, 2002). The needs of the stakeholder information do not only

cover economic aspects, but also environmental and social aspects. Attention to the environmental and social aspects is believed to help the company survive for a long time (Wood & Ross, 2006).

The role gap in management as agents and investors, and stakeholders as owners can be minimized by providing balanced information for management and stakeholders. The balance of information for both parties is done by having SR. Information in SR can give whole information for both parties and minimize the risk in decision-making for stakeholders (Jackson & Wang, 2013). Disclosure of SR information can be good news for investors which indicate that the company already has responsibility, establishment, and environmental and social awareness. The quality of such information aims to reduce the information asymmetry that arises when managers are more aware of internal information and future prospects of the company than the company's external parties (Zare, Moradi, & Valipour, 2013; Sharma, 2013). Signal theory emphasizes the importance of information issued by the company towards investment decisions outside the company, so what expected from this signal theory is the honesty of information in order to help stakeholders in understanding the signal of success and failure of a company. As described on the asymmetric information in the agency theory, having this signal will give a statement to the stakeholders on which stage the company is and what it does.

According to Islam & Hu (2012) contingency theory is a theory that uses the approach of organizational behavior. This theory points out that there are various contingency factors that can affect an organization, in this case is the company. Contingency factors such as technology and culture and external environmental factors determine the design and function of the company in holding its business activities. Furthermore, Reid & Smith (2000), Chenhall (2003), and Woods (2009) state that each company has different external environmental factors. Environmental conditions or situations affect the company in holding its activities. The financial report is no longer the only indicator of corporate performance in order to have sustainability because non-financial information is also important with corporate financial indicators. SR contains company information to the public regarding the economic, environmental and social impacts caused by company activities. The presented report contains organizational values and management related to GCG principles, so there needs to be a commitment and strategy in relation to the sustainability of the company. SR is not only a mere transparency but rather as a tool for companies in measuring and communicating with the public on their social performance and corporate management with the aim of making changes effectively and efficiently over time (Tilt, 2009; Lipunga, 2014; Oktaviani, 2011; Brammer, Jackson, & Matten, 2012; Abdulrazak & Ahmad, 2014).

Table 1
Culture Dimension and Accounting Value

<i>Culture Dimension</i>	<i>Relationship with Accounting Value</i>			
	<i>Professionalism</i>	<i>Uniformity</i>	<i>Conservatism</i>	<i>Secrecy</i>
Individualism	+	-	-	-
Uncertainty Avoidance	-	+	+	+
Power Distance	-	+	NR	+
Masculinity	NR	NR	+	+

Source: Gray, 1988

According to Hofstede, Hofstede, & Minkov (2010) there are six indexes to describe the culture of each country, such as:

1. *Uncertainty Avoidance Index*, i.e. degree of inconvenience or rejection of certain members of the society against uncertain or ambiguous matters. This illustrates how high the society has the tendency to like certain and equal things.
2. *Masculinity versus Femininity*, i.e. degree of public preference for achievement and material success. This index can also describe the degree of femininity, namely the preference for relationships with each other, simplicity, helping the weak, and quality of life.
3. *Power Distance Index*, i.e. the tendency of public acceptance of power gap within a company or institute.
4. *Individualism versus Collectivism*, i.e. degree of behavior of people to take themselves and their family as priority than other people.
5. *Long Term Orientation versus Short Term Normative Orientation*, i.e. degree of society appreciation of traditional values. The results obtained in the future are the impact of hard work done today.
6. *Indulgence versus Restraint*, i.e. degree of society freedom to enjoy life as a basic human need. Indulgence shows a low ability to control the situation, while restraint is the opposite.

Furthermore Gray (1988) developed based on Hofstede (1980) by adding accounting values as part of the value received by society, as well as the accounting system as part of the institution. The dimensions of accounting value studied by Gray (1988) are:

1. *Professionalism vs Statutory Control*, i.e. preferences to conduct individual assessments professionally; and obey the established policies.
2. *Uniformity vs Flexibility*, i.e. preferences to encourage equality in accounting practices; and the flexibility to adapt each company's specialty.
3. *Conservatism vs Optimism*, i.e. preferences to carry out accounting practices conservatively; and more daring practices in taking risk.
4. *Secrecy vs Transparency*, i.e. preferences to reveal information limitedly and openly.

METHODS

This research uses secondary data. The secondary data is obtained from financial report, annual report, and company's Sustainability Report Publication determined with further criteria. This research uses verificative descriptive research method. Descriptive research aims to explain the condition of existing variables. This study aims to obtain a conclusion that can describe and explain the picture of the study sample results. Verificative research aims to test the validity of previous studies. Sampling process in this research uses purposive sampling. Purposive sampling is a technique of determining the sample with certain considerations. So the data obtained is more representative by conducting a competent research process in its field (Sugiyono, 2012).

Observation data in this research can be classified as panel data. According to Gujarati & Porter (2008), the use of panel data has an advantage when compared to cross-section data or time-series data, i.e.

panel data incorporates cross-section and time-series observation data, thus providing more and varied information. Panel data can also minimize the bias that may occur in observation data if only uses cross-section or time-series.

Table 2
Chow Test

Redundant Fixed Effects Tests

Equation: PERSAMAAN

Test cross-section fixed effects

<i>Effects Test</i>	<i>Statistic</i>	<i>d.f.</i>	<i>Prob.</i>
Cross-section F	31.552962	(23,137)	0.0000
Cross-section Chi-square	309.137993	23	0.0000

Source: e-views 9th version

In the panel data model estimation, there are three options that can be done such as Common Effect model, Fixed Effect model, and Random Effect model. Common Effect is the simplest panel data estimation technique by combining time series and cross section data with Ordinary Least Square (OLS) method. The common effect approach does not pay attention to individual or time dimensions, so intercepts and slopes are considered equal (constant).

Meanwhile Fixed Effect pays attention to the diversity between individuals by assuming that intercepts between different groups of individuals are different, while the slope is considered the same. The definition of Fixed Effect is based on the difference of intercept between individual but remains the same inter time, while the regression coefficient (slope) is considered to remain proper between individual groups and inter-time. In Fixed Effect model, it is done by giving dummy variable.

Table 3
Hausman Test

Correlated Random Effects - Hausman Test

Equation: PERSAMAAN

Test cross-section random effects

<i>Test Summary</i>	<i>Chi-Sq. Statistic</i>	<i>Chi-Sq. d.f.</i>	<i>Prob.</i>
Cross-section random	7.151882	7	0.4132

Source: e-views 9th version

The aim is to anticipate the occurrence of differences in the distinct value of parameters, both cross section and inter time. The decision to include dummy variables in the fixed effect model will have consequences, such as lessen the number of degrees of freedom, thus reducing the efficiency of the estimated parameters.

The next panel data model is Random Effect. In the Random Effect, different parameters between regions and inter time are put into an error. In this model it is assumed that the error does not correlate individually, as well as its combination.

Table 4
Lagrange Multiplier Test

Lagrange Multiplier (LM) test for panel data

Sample: 2008 2014

Total panel observations: 168

Probability in ()

<i>Null (no rand. effect)</i>	<i>Cross-section</i>	<i>Period</i>	<i>Both</i>
Alternative	One-sided	One-sided	
<i>Breusch-Pagan</i>	291.1665 (0.0000)	2.037962 (0.1534)	293.2045 (0.0000)

Source: e-views 9th version

RESULTS AND DISCUSSION

In this study culture is measured by the proportion of local commissioners in their own countries. In China and India the proportion of local commissioners is over 75%, while Indonesia's proportion of local commissioners has a balanced percentage of between 25% until more than 75%.

Table 5
Descriptive Statistics

<i>Variables</i>	<i>Mean</i>	<i>Std. Deviation</i>
Culture	.8724	.19657
Sustainability Reporting	.7660	.27272

Source: SPSS 23th version

The cultural differences of each country are measured by the presence of the local commissioners where the company is located. Culture will have an impact on the people in that country. The culture of the society will also affect the culture embraced by each individual. The culture embraced by individuals will have an impact on the individual's role as a board of commissioners in the company. This tendency to be closed towards SR disclosure is because the three countries are from Asia which is more closed than Europe and America (Williams, 1999; Xiao, Gao, Heravi, & Cheung, 2005). Indonesia, China, and India show the composition of local commissioners by more than 75%, indicating the possibility of limited disclosure of SR information.

According to Hofstede (1980), if associated with individual cultures, manufacturing companies in Indonesia, China, and India tend to be closed to SR information disclosure, and tend to have high collectivity attitudes. Independent commissioners in each manufacturing company in the three countries, mostly come from the country where the company is located. This indicates that independent commissioners tend to be closed in disclosure and have high collectivity. High collectivity will result in individuals having a tendency to follow each other in decision making as a form of tolerance. Decision making by the majority of top management members will relatively be followed by independent commissioners rather than independent commissioners making a decision or performing a different controlling function than the majority of top

management. Furthermore, the culture of manufacturing companies in the three countries has a high degree of collectivity which impacts on the selection process of independent commissioners.

Tabel 6
Proportion of Local Committee

<i>Local Committee</i>	<i>Indonesia</i>	<i>China</i>	<i>India</i>
< 25%	0	0	0
25% - 50%	2	0	0
51% - 75%	2	1	1
> 75%	4	7	7
Total	8	8	8

Source: Analyzed by Microsoft Excel 2013

Based on the cultural factors stated by Hofstede (1980) manufacturing companies in China and India have lower uncertainty avoidance levels than manufacturing companies in Indonesia. The level of uncertainty avoidance indicates how much an individual can accept uncertainty and will result in acceptance of decision making equality, although the institutional ownership of companies in the three countries is largely controlled by institutions. However, the individuals in the institution that control the company come from the local country where the company is located. Therefore, the existence of high uncertainty avoidance causes individuals in Indonesia prefer to do certain and equal things. What is certain is SR disclosure is set by the government in various regulations, and SR disclosure is also believed to provide strength for the company.

Meanwhile manufacturing companies in China and India have low uncertainty avoidance levels, this means manufacturing companies in both countries prefer risky decision making and dares to give specialty in every decision making. Individuals within the institution who control the company assume SR disclosure to be sensitive and not yet to be disclosed, although individuals of both countries are aware that it affects the imbalance of information and agency costs. When linked to cultures, manufacturing companies in Indonesia and China have a higher aspect of long-term orientation than India. This means that companies in Indonesia and China have a tendency to disclose SR with the assumption that it will be useful in the future. A relatively new or long-standing company will consider for the long term that SR disclosure will add strength. Whilst manufacturing companies in India, with lower long-term orientation levels will reveal SR based on the maturity of the company. A mature company will be able to think on matters other than economic aspects, such as the environment and social.

Based on the cultural aspect, the manufacturing company in Indonesia has high uncertainty avoidance and long-term orientation level so that it performs conservative way in carrying out long-term company activities. Manufacturing companies in Indonesia and India have high indulgence levels which mean low controlling capability. The larger the company will have a higher level of complexity and require better control. Therefore, companies in Indonesia and India need the public to supervise the activities of the company. One form of supervision that can be done is on the company's SR disclosure.

Meanwhile in manufacturing companies in China, low indulgence level indicates that the country is able to control everything that occurs in the company. So it is assumed that the size of the company will not affect the SR disclosure. Manufacturing companies in China have a high level of controlling confidence,

so big or small and simple or complex, companies will still be able to control it. Pressure given by public to the company has the company focusing on the economic aspects, such as debt management so it will be able to create a good level of leverage and gain public's trust. Debt management results in the lack of focus on information disclosure related to SR. Both profit and leverage are the financial indicators that show the success of the company in its business activities. Similar to profit, manufacturing companies in India with high individualism and masculinity will tend to disclose SR as a part of an effort to improve the company's financial performance.

While in manufacturing companies in Indonesia and China, collectivity aspect is superior to individualism. The success of the company to manage leverage is the result of the cooperation of each part in the company. Financial performance, in this case leverage, a good company is considered a success in the aspect of collectivity for the company. In the cultural aspect, manufacturing companies in Indonesia and China have low masculinity level, which means that individuals in both countries have social and kinship soul or high collectivity. Therefore the company producing high achievement in economic aspect will not affect SR disclosure. While manufacturing companies in India have high levels of masculinity and individualism, indicating that profit is a benchmark for the success of company's achievement. The achievement is expected to last or increase by holding the SR disclosure.

Manufacturing companies in Indonesia and India have done good enough SR disclosures with the average percentage in all three aspects ranging from 51% to 75%. Meanwhile the disclosure in China has been done but it was discovered that the disclosure ranges from 25% to 50% only. SR disclosure is an important part that needs to be revealed to the public. The companies in all three countries have disclosed the SR, as a form of awareness that environmental and social aspects are indeed sensitive yet giving a contribution positively to the public as a part of minimizing agency costs and providing a positive signal about the company's condition to the public.

The characteristics of Indonesian and Indian companies have better disclosure of economic, environmental and social aspects compared to SR information disclosure in China. Indonesia and India have an equal aspect of economic, environmental and social disclosure. Meanwhile in China, disclosure has been done for the economic, environmental, and social aspects but the disclosure is still quite limited with the range of 25% to 50% only. The concern about SR information disclosure in companies in China is relatively low. This lack of awareness is due to the company's focus to make innovations to gain profits without contemplating the existence of the company in the future. Being the olds does not guarantee that the level of awareness of SR information disclosure will increase. While manufacturing companies in Indonesia have better levels of disclosure for all of the three aspects of SR information disclosure. Government regulations and the capital market authority shall perform their functions in terms of supervision and control over the disclosure of information that the company should give to the stakeholders. This disclosure also means that the awareness of the company in Indonesia is good enough to pay attention to the stakeholders and not just focus on its profitability.

More specific SR information disclosure described in the appendix points out that the Indonesia is more focused on economic and environmental aspects, while China focuses on the economic aspects only and India focuses on environmental and social aspects. India has a high level of awareness towards SR information disclosure. These results indicate that manufacturing companies in Indonesia already have awareness in the environmental aspects but not as well in the social aspects. It can be seen in the condition

Table 7
Percentage of Sustainability Aspects

Percentage of Sustainability Report Publication	Indonesia			China			India		
	EC	EN	SOS	EC	EN	SOS	EC	EN	SOS
< 25%	0	1	1	1	3	5	0	1	0
25% - 50%	1	2	2	5	4	2	3	1	2
51% - 75%	4	4	3	1	0	0	4	6	6
> 75%	3	1	2	1	1	1	1	0	0
Total	8	8	8	8	8	8	8	8	8

Source: Analyzed by Microsoft Excel 2013

Notes:

EC : Economic Aspects

EN : Environmental Aspects

SOS : Social Aspects

of Indonesia, social issues often become a problem that is quite complicated to handle. The public often does not have enough information from the company about the social aspects it has done. Labor issues may occur due to a lack of balanced information between companies with the workers and other stakeholders. Whereas manufacturing companies in China only focus on economic aspects, therefore it is not surprising that China becomes a very decent country in terms of economy, but there are still often cases of environmental and social issues. The dominance of individual owners who have the tendency to think only on the economic aspect make the company has the establishment economically, but the aspect of sustainability is less of a concern to the companies in China. Companies in China focus on short-term economic aspects. Companies in China need to pay attention to the environmental and social aspects, because they pay a contribution to the viability of the economic aspects to make it work well for long-term period.

Manufacturing companies in India have different disclosure results from China. Manufacturing companies in India show maturity, establishment, and corporate responsibility with the disclosure of environmental and social aspects. Even though focusing on environmental and social aspects, the economic aspects are not neglected. It is proven by the fact that companies in India can still be competitive with other companies outside India. However, the company's disclosures have made contribution and invested in sustainable development in the country for a long-term period.

CONCLUSION, LIMITATION, AND SUGGESTION

Culture affects the SR disclosure. The cultural values embraced by individuals within a company have a major contribution to the company's activities, including decision-making and company policies. The role of individuals with their respective cultural characteristics plays an important role in the company. This result is in line with contingency theory, which points out that culture is an environmental factor affecting SR information disclosure.

This study has several limitations, such as: (1). The existence of time constraints, this study uses only seven-year data period from 2007-2014. This short period of time causes the company's age and the size of the existing company unable to describe the overall condition of the company, and (2). Supervisory and control functions of the independent commissioners that have not been carried out well. The proportion of independent commissioners tends to be limited to the prevailing regulatory provisions in Indonesia, China and India.

Suggestions to be put forward based on this research are: (1). SR information disclosure gives a signal to stakeholders that the company is well-established, caring, and environmentally and socially responsible for sustainability development. This signal will increase the stakeholder's trust towards the company, and (2). The Company has various special interests in running its business activities. Nonetheless, companies should not overlook the environmental and social aspects that will have a positive and long-term impact not only for the company but also on sustainability development. They need to be aware that companies that have disclosed SR information indicate maturity, reliability, and responsibility to the public interest.

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