Institutional Ownership, Managerial Ownership, Financial Distress to Auditor Switching and Its Impact to Sustainability Disclosure

Dharmendra[1*], Tubagus Ismail[2], Lia Uzliawati[3], Imam Abu Hanifah[4]
{dharmendra.dclana@gmail.com[1*], adeismail73@gmail. com[2], uzliawati@untirta.ac.id[3], imamabuhanifah@untirta.ac.id[4]}

Phd Scholar, Faculty of Economic and Business, Sultan Ageng Tirtayasa University, Banten, Indonesia[1]
Faculty of Economic and Business, Sultan Ageng Tirtayasa University, Banten, Indonesia, [234]

A b s t r a c t. This study's objective is to assess the effects of managerial ownership (MO), financial distress, and institutional ownership (IO) on sustainability report disclosures (SRD), with auditor switching acting as an intervening variable. Mining industry that are listed on the IDX from 2016 to 2018 is the research population. With the help of IBM SPSS 23.0 software, the logistic regression analysis is employed as a technique for analysis. The results shows that IO had a negative effect on SRD, while MO and financial distress does not affect SRD. IO intervening by auditor switching shows favourable outcomes that increased the power of SRD. In addition, MO and financial distress intervening by auditor switching does not affect SRD. Future research should concentrate on the degree of transparency and the standard of the content of sustainability reports by examine disclosure indicators associated with Global Reporting Initiative criteria.

Keywords: Corporate Governance, Financial Distress, Auditor Switching, Sustainability Disclosure.

1. Introduction

The company was founded with the intention of turning a profit or creating the largest profit possible to improve business operations and stakeholders' wellbeing [1]. Therefore, the business must have social responsibility for the community in which it operates in addition to carrying out operations to maximize profits [2]. The idea of maximizing the profit occasionally started to develop and evolve into a triple bottom line, or 3P [3].

The existence of the 3P principle is the foundation of the firm, enabling it to focus more on the community, welfare, and environmental sustainability as well as financial success [4]. Companies that wish to be sustainable must focus on profit to boost sales, people to give benefits to workers and society, and planets to preserve and enhance the quality of the natural environment in which they operate [5].

The number of disasters that occurred across different places in Indonesia shows that environmental harm as a result of the exploitation of natural resources that are not in compliance with norms, such as the extraordinary example of the appearance of mixed mud floods and sulphur gas in the Sidoarjo district of East Java brought on by Lapindo Brantas Inc.'s mining operations and forest fires brought on by 12 plantation and forestry firms in

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many protected forests in Kalimantan and Sumatra (BBC, 2015). Case This demonstrates how little the business cares about the effects its operations have on the environment.

The data shows that the mining sub-sector is still less than 67% companies that disclose corporate social responsibility, around 54% or 21 of the 39 companies listed on the IDX that have disclosed corporate social responsibility [6]. The Indonesian forum for the environment (WALHI) assesses that mining companies are the most contributing related to the natural damage that occurred in the Indonesian region. Meanwhile, with a score of 37.8 on the Environmental Performance Index (EPI), Indonesia was rated 116th overall in 2020 and 10th in the Asia Pacific region.

Some of these environmental harm occurrences show the company's disregard for environmental issues and ignorance of its responsibilities under social responsibility in business to the community [7]. Environmental impacts such as this encourages the emergence of demands from various interest groups in society towards the business to engage in social and environmental responsibilities for the impact of the company's activities. Information that is open and honest regarding the company's operations is very necessary so that stakeholders can find out how the company's activities and what are the impacts caused by the company to the surrounding environment. The information can be reported the company through a sustainability report (SR).

One of the main barriers to sustainable growth is the requirement for novel and creative options and ways of thinking [8]. To explain sustainability properly, a global conceptual framework with consistent and measurable language is required [9]. By offering a reliable and credible framework for reporting on sustainability that can be utilized by numerous organizations of varying sizes, sectors, and locations, the Global Reporting Initiative (GRI) is attempting to address these needs. This concept is then widely known as the sustainability report (SR). The process of assessing, disclosing, and communicating sustainability, and holding organizations responsible to internal and external stakeholders for their success in achieving sustainable development goals (SR) [10]. SR disclosure in most countries, including Indonesia, are still voluntary, which means that there are no special rules that oblige as in issuance of financial statements.

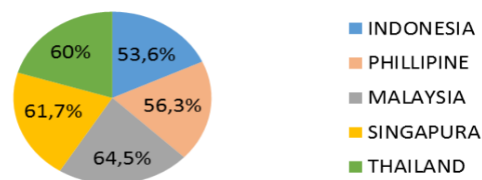

Fig. 1. ASEAN SR Disclosure Graphic

Malaysia is regarded to have the highest level of sustainability, according to the poll, at 64.5%, followed by Singapore, Thailand, The Philippines, and Indonesia [11]. Due to Indonesia's continuous voluntary nature regarding the publishing of sustainability reports, the country has the lowest rate, at 53.6%. Only a few firms have already disclosed their SR information in Indonesia, where it is still optional and in its early stages [12]. Regulations governing SR in Indonesia was only present in 2017 through POJK 51/POJK.03/2017 concerning the implementation of sustainable finance for financial services, institutions, issuers, and public companies. However, in fact, the government has already regulated, the

corporate social and environmental responsibility in law no. 40 of 2007 concerning limited liability companies' article 74.

Research gaps were discovered because of the contradictory findings of earlier studies that explore the disclosure of SR. According to study [13,14] It appears that institutional ownership has a favourable impact on how the sustainability report is disclosed. These findings differ from [15], that shown institutional ownership has little influence on SR disclosure. Aniktia [16] found that managerial ownership has a positive effect on SR disclosure. Contrary to those findings, [17] indicates that managerial ownership has a minimal effect on SR disclosure. Financial distress has a favourable impact on SR disclosure, according [18], in contrast, [19] who claimed that financial distress has no impact on the revelation of SR.

Seeing the inconsistent findings between some previous research, make things interesting to be re-examined. Inconsistency in influence proportion of institutional ownership, managerial ownership, a financial distress for SR disclosure is thought to be due to the other factors that are believed to have influenced how SR disclosure behaved. This study tries to come up with an auditor switching as an intervening variable. The choice of the company as an intervening auditor is based on the idea that auditing adds value to company financial statements and improves their integrity so that the report can be trusted for the benefit of parties outside the entity, such as shareholders, creditors, the government, and the financial sector. Of course, this will have a direct impact on the financial statements' reliability [20]. Environmental disclosure will be influenced by the type of corporate auditors chosen. According to the description, auditor switching can be utilized to reduce the impact of SR disclosures' proportionate institutional ownership, managerial ownership, and financial hardship.

The goal of this research is to analyse and describe how managerial ownership, institutional ownership, financial distress, SR disclosures, and moving auditors can all have an impact on a relationship. In addition, this research also limited to population selection and study period. IDX-listed mining companies make up the study's population, and the study's three-year study period runs from 2016 to 2018. The originality of this research is the addition of the variable auditor switching as an intervening variable. It is hoped that this will provide references, explanations, and answers that the cause of the inconsistency of previous research results due to auditor switching as a variable intervening that has never been revealed in research previously.

2. Literature Reviews

2.1 Stakeholder Theory

Stakeholder theory identifies the parties that the company is accountable [21]. Businesses can keep their stakeholder connections by addressing the demands the requirements of their stakeholders, especially those who have influence over the availability of resources used for the business' operational activities, like labour, the market for the items the business sells, and others.

One strategy to maintain relationships with stakeholders and shareholders publish a sustainability report that details the company's economic, social, and environmental performance as well as to all stakeholders' commercial interests [22]. With this disclosure, it is intended that the business will be able to meet information needs and manage stakeholders to get support from those who influence the sustainability of the company's operations. A

positive relationship between the company and its stakeholders is intended to result from SR disclosure for the company to achieve sustainability or become a sustainability company.

According to Clarkson [23], There are two categories of stakeholders: key stakeholders, which include investors, creditors, employees, and the government. While the primary plays a significant part in the continuity of the associated company. Where the parties involved in this situation are clearly related economically and as a risk bearer. Secondary stakeholders, unlike the media, social institutions, and society, have a relationship with the business but are not financially invested.

2.2 The Interaction of Institutional Ownership and Sustainability Report Disclosure

Institutional ownership refers to shares of a corporation held by institutions such as insurance companies, banks, investment firms, and other institutions. Institutional ownership is important in monitoring management because it promotes better supervision and makes it more effective. The oversight will undoubtedly ensure shareholder prosperity. Institutional ownership's significant capital market engagement stifles its ability to act as a supervisory agent.

As a form of an institution, it requires the disclosure of sustainability reports that occur in European banking, where banks in Europe implement policies in lending only the companies that implement sustainability reports well. Higher institutional ownership levels are anticipated to result in greater disclosures from the corporation [24]. This happens because there is a strong reciprocal relationship between corporate responsibilities with the institution. What is meant by institutional ownership ratio here is the percentage of the shares owned by domestic institutions as stated in ICMD. Based on the arguments above, this research will try to test the effect of ownership institutional approach to the practice of disclosing sustainability reports by developing hypotheses as follows:

H1: Institutional Ownership influences a disclosure practices sustainability report

2.3 The Connection Between Managerial Ownership and Long-Term Sustainability Report Disclosure

Managerial ownership relates to the amount of common stock held by management (the board of directors and commissioners) expressed as a proportion of the total number of management shares. Management will be more engaged in enhancing the company's performance as there is more managerial ownership since management has a duty to satisfy the wishes of the shareholders, including himself alone [25]. If a corporation has management ownership, it is expected that more information will be made available to the public so that companies can gain public credibility.

If a member of the management team owns stock, it is expected that they will be knowledgeable enough to include economic, environmental, social, and corporate governance information in the sustainability report. The more ownership by management has, the better the company's performance will be because it will affect the shareholders, namely himself. According to Li et al. [26], managerial ownership has a positive effect on SR disclosure. The researcher develops the following hypothesis based on the above description:

H2: Managerial ownership influences disclosure practices sustainability report

2.4 The Relationship Between Financial distress and Sustainability Report Disclosure

Financial distress conditions occur before the company is bankrupt. Kuncoro & Agustina [27] stated If the company is doing well, it will voluntarily provide information to investors. This means the company will reveal less information when the company Experiencing financial distress conditions. A study conducted by Immanuel & Muid [28] found that the company was in financial distress conditions tend to express less information. Research conducted by Gantyowati and Nugraheni [29] against non-financial companies in Indonesia found that financial distress conditions affect voluntary disclosure.

H3: Financial distress influences disclosure practices sustainability report

2.5 The Relationship Between Institutional Ownership and Auditor Switching

Institutional ownership plays an important role in decision making regarding whether it is necessary for the client company to change auditors (auditor switching) in the coming period [24]. The separation of ownership and company management is expected to improve the owner's well-being. Company ownership of the institution expects manager performance better and more careful in making decisions. The greater the institutional ownership the greater the possibility that the company conducts auditor switching.

H4: Institutional Ownership influences Auditor Switching

2.6 The Relationship Between Managerial ownership and Auditor Switching

Managerial ownership increases the interests of internal parties and shareholders, resulting in decisions to increase the company's value. Friend and Lang [30] found that management share ownership is a proportion of management in deciding the results of the company so that it is important to do the relationship in determining the changing capture. In the eyes of many people, management wants the company to be more developed and freer of misunderstandings of financial statements as one of the company's performances tools [31].

H5: Influences of managerial ownership on Auditor Switching

2.7 Financial Distress and Auditor Switching: A Relationship

Financial distress is a state in which the company experiences difficulties in finance so it is feared that it will experience bankruptcy. In this instance the bankruptcy of a company is marked by inability companies in carrying out their obligations. Liquidation is the last option to consider if the company's performance is not promising. As a result, the breakdown between the corporation and the chosen public accounting firm has a certain level of effect substitution because it must maintain financial stability, the company chooses the public accounting firm based on its own subjective standards [32]. Ardian [33] claims that when a firm is under financial strain, they are more likely to transfer auditors than their healthy counterparts since the client company's potential bankruptcy tends to increase the appraisal of the subjectivity and caution of auditors.

Whereas According [34], the reason the company needs to hire the quality of the auditor higher than the previous one is to attract the trust of stakeholders and increases the company's confidence. This assertion is consistent with the findings [35], which found that a company has a greater propensity to transfer auditors the more financially distressed it is.

H6: Financial distress influences on Auditor Switching

2.8 The Relationship Between Auditor Switching and Sustainability Report Disclosure

For parties outside of the entity, such as shareholders, creditors, the government, and other stakeholders, to be able to trust the report, auditing adds value to financial statements of the company. Auditing adds value to the company's financial statements by increasing their integrity and the report's ability to be trusted for the benefit of parties outside the entity, such as shareholders, creditors, the government, and the financial sector, after the financial statements have been audited by an independent auditor. To maintain independence and public trust, rotating auditors or KAP is one strategy to improve auditor independence.

The government issued regulations that regulate auditor rotation or turnover auditors that must be carried out by a Company. In 2015, The government issued Public Accountant Practice PP No. 20/2015. According to PP No. 20/2015 article 11 paragraph (1), KAP is no longer limited in performing audits of companies. Only public accountants are subject to restrictions, which last for five consecutive fiscal years.

H7: Auditor Switching influences on a disclosure practices sustainability report

3. Method

The annual report was used as secondary data to determine the independent variables in this quantitative study, namely institutional ownership, managerial ownership, financial distress, auditor switching, and sustainability report to learn more about the dependent variable on mining companies listed on the Indonesia Stock Exchange (IDX) in 2016 to 2018—as many as 29 companies. This study also used primary data, such as interviews with participants and secondary data from the annual report to determine the independent variables. Technique Purposive sampling was used to collect data from 25 companies with three years of observations to produce 75 units of analysis. Table 1 lists the criteria used to select the sample. As for the explanation, an operational definition of each variable used in this study are presented in table 2.

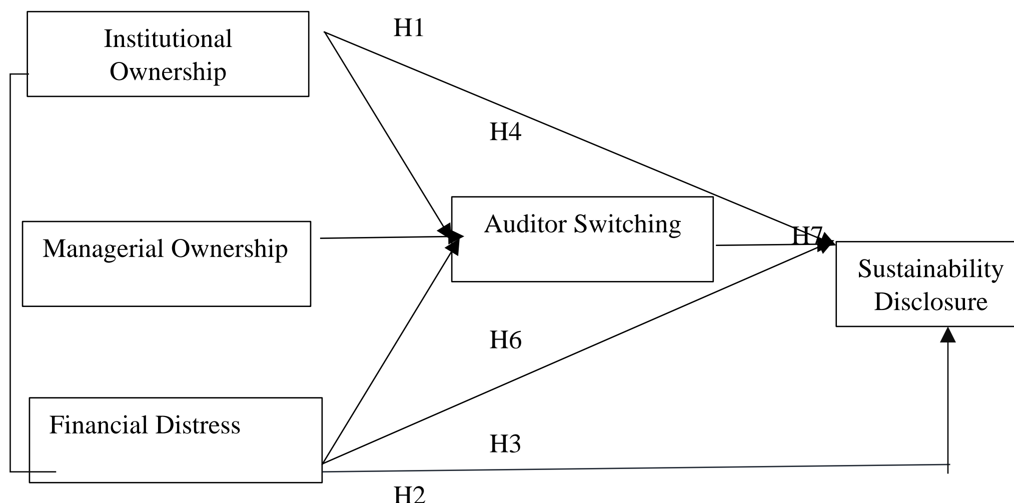

Fig. 2. Research Model

Table 1. The sampling requirements

No	Criteria	Violate Criteria	Amount
1	Mining company listed on the IDX in 2016-2018.	-	29
2	Companies that don't publish an annual report during 2016-2018	(4)	25
	observation year		3
	Number of units of analysis		25*3
	total units of analysis during the study period 2016-2018		75

Data collection techniques were employed by analysing financial report data (annual reports) and company sustainability reports from mining companies listed on the Indonesia Stock Exchange between 2016 and 2018. With the help of SPSS 23, the data analysis technique employs descriptive statistics and inferential analysis via the logistic regression model (logistic regression). Because the dependent variable is dichotomous, logistic regression analysis tools (logistic regression) are used (SR). Because the independent variable is a mixture of continuous variables (metric) and categorical variables, the assumption of normal distribution cannot be met (non-metric). Since there is no requirement that the data on the independent variables be normal, logistic regression can be used to analyse the situation in this instance.

Descriptive statistical analysis was used to determine the characteristics of the sample used and describe variables in the study. Number, sample, minimum value, maximum value, value mean, and standard deviation are all part of descriptive statistical analysis. Minimum and maximum values used to see the minimum and maximum values of population. The mean is estimated from the sample and is used to estimate the population mean size. The standard deviation is used to assess the sample's mean dispersion.

Table 2. Operational Variables

No	Variable	Definition	Measurement
1	Disclosure sustainability report (SR)	A tool to fulfil the company's obligations report its performance in three aspects, namely social, economy and environment.	Value 1 = express SR Value 0 = does not reveal SR
2	Institutional ownership	Institutional ownership is share ownership by the institution another is ownership by the company or other institutions.	Based on the institution's ownership of shares relative to all shares, institutional ownership is calculated.
3	Managerial ownership	In a situation known as managerial ownership, both the management and the company's shareholders are involved.	The ratio of managerial share ownership to all publicly traded share ownership is used to calculate institutional ownership.
4	Financial distress	Financial distress results from a	Financial distress is measured

		company's inability to pay obligations that have slowed down.	or proxied by using interest coverage ratio. The company experiencing financial distress if the company's interest coverage ratio (ICR) less than 1. ICR = $\frac{Operating\ Profit}{Interest\ Expenses}$
5	Auditor switching	Auditors transfer the audit firm partners for the obligations that must be carried out as stipulated	This variable uses the variable Dummy for companies that perform auditor switching is rated 1 while for companies that do not carry out the practice of auditor switching given value 0

In the dummy variable the descriptive statistical analysis used is a descriptive statistical analysis of frequency, namely statistical analysis, a description that describes the data in quantitative form which does not include decision making through the hypothesis. To determine the distribution of responses from each respondent, frequency descriptive statistics are used (agree or disagree, yes or no, and so on). In this research descriptive statistics of frequency are used to see the picture of SR variables. In addition, in descriptive statistical analysis also explained the class interval of each variable study.

4. Results

Table 3 displays, the findings of a descriptive statistical analysis for the percentage of institutional ownership, managerial ownership, financial distress, auditor switching, and the sustainability report.

Table 3. Research Variable Descriptive Statistics

	N	Min.	Max.	Mean	Std. Dev.
SR	75	0,000	1,100	0,193	0,338
IO	75	0,000	0,854	0,662	0,320
MO	75	0,000	0,721	0,025	0,122
FD	75	-623,55	117,322	45,223	3,668
AS	75	0,000	1,000	0,536	0,513
Valid N (Listwise)	75				

4.1 SR Disclosures

The dependent variable for SR disclosure is a dummy variable that takes on the values of 0 if the company does not report SR and 1 if it does. The dependent variable in this study is a dummy variable, so the minimum, maximum, average, and standard deviation values are unknown. Figure 2 depicts the results of frequency analysis. Figure 2 shows the results that companies that revealed SR as many as 10 companies or 40% while companies that do not

disclose SR as much as 15 companies or 60%. This shows that still few mining companies disclose SR as a form of voluntary report separate from the report annual.

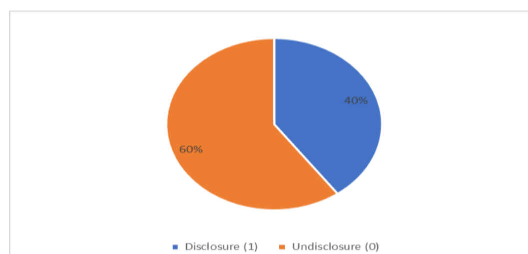

Fig. 2. Frequency Analysis

4.2 Institutional Ownership

Institutional ownership variable (IO) shows the lowest value of a score the lowest of zero owned by 6 companies and value highest 85% by PT Baramulti Suksessarana Tbk. Variable institutional ownership has the average value mean 0,662, and standard deviation 0,320. Average value mean is greater than the value of standard deviation. A standard deviation value which is smaller than the average value (mean) shows that the variation of what happens between data is very low and data used in this study is more homogeneous.

4.3 Managerial Ownership

The managerial ownership variable is determined by dividing the total number of outstanding shares by management's total share ownership. Based on statistical test results descriptive is known to be the lowest (minimum) the value of variable managerial ownership is 0 % that is as many as 20 companies. Mark highest (maximum) of managerial ownership variable is 0,721, namely PT J Resources Asia Pasifik Tbk. The average value of this variable is 0.025, which is less than the standard deviation of 0.122, indicating that a standard deviation greater than the average value (mean) indicates that the variation of what happens between data is very high, and the data used in this study is more heterogeneous.

4.4 Financial Distress

Interest coverage ratio (ICR) levels of less than 1 are indicative of businesses in financial hardship (FDI). The organization with the lowest ICR is PT. Alfa Energi Investama Tbk, with a score of -623.55. The average ICR for mining companies is 3.668, which indicates that most businesses are not in financial hardship.

4.4 Auditor Switching

Auditor switching which proxied by the company performing auditor switching or companies that do not perform auditor switching. The lowest value is 0 means that the company does not perform auditor switching and the highest value of 1 means the company perform auditor switching. The standard deviation is 0.513, whereas the average value of 0.53 indicates that mining companies who listed on the IDX in 2016–2018 switched auditors on average by 53%.

The standard error of the variable is small if the average value exceeds the standard deviation value.

Table 4. Research Hypothesis Testing Results

Hypothesis	Information	B	Sig.	Result
H1	Institutional Ownership (+) against SR	-115,215	0,002	Rejected
H2	Managerial ownership (+) against SR	0,772	0,252	Rejected
H3	Financial distress (+) against SR	1,225	0,744	Rejected
H4	Institutional Ownership against Auditor Switching	4,665	0,002	Accepted
H5	Managerial Ownership against Auditor Switching	-0,450	0,236	Rejected
H6	Financial Distress against Auditor Switching	-0,056	0,420	Rejected
H7	Auditor Switching against SR	-0,032	0,520	Rejected

4.5 Based on the study's findings in table 4, the hypothesis tests in this study are as follows:

1. Based on table 4, variable institutional ownership has a significance value of 0.002 and a constant value of -115.215. Variable Institutional ownership considered to have a substantial influence on the disclosure of SR because the significance value is less than 0.050. The constant value is negative, indicating that institutional ownership and SR disclosures have a negative correlation. In other words, the corporation will disclose SR less frequently more institutional ownership, there is in the company. Therefore, it may be said that this study's hypothesis H1 was rejected.

2. Based on Table 4, the managerial ownership variable has a significance value of 0.252 and a constant value of 0.772. The management ownership variable is assessed to not have a significant impact on the disclosure of SR because the significance value is bigger than 0.050. The constant's value is positive, indicating a favourable relationship between managerial ownership and SR disclosure. Thus, it can be deduced that H2 was not accepted in this investigation.

3. Based on Table 4, the financial hardship variables have a significant value of 0.744 and a constant value of 1.225. The financial strain is not considered to have a substantial influence on the disclosure of SR because the significance value is greater than 0.050. Because financial distress and SR disclosure are positively correlated, as evidenced by the constant's positive value, it was determined that the H3 of this study was invalid.

4. Based on Table 4, the interaction between the institutional ownership factors and the auditor switching has a significant value of 0.002. The result that the auditor switching of the company considerably intervening the influence between the institutional ownership and SR is shown by the significance impact on the relationship between institutional ownership and SR (0.050). The coefficient value of 4.665 indicates a positive association between auditor switching as an intervening variable and SR disclosure, enhancing the impact of institutional ownership proportion on SR disclosure. This means that the greater the proportion of institutional ownership who supported by a large company, the company will disclose SR On the other hand, if the company has a small proportion of institutional ownership and companies which is small, then the company will not disclose the SR. So, it can be concluded that H4 of this research is accepted.

5. Based on Table 4, the interaction between the variables of managerial ownership and auditor switching has a coefficient value of -0.450. This figure shows that the influence of managerial ownership on SR disclosure is reduced when the auditor changeover is included as an intervening variable. This demonstrates that businesses with high-level managerial ownership and auditor changes of the business are taking place, and that there is a chance the business will reveal the SR is decreasing. Companies with low management ownership and small firm sizes will otherwise exhibit SR. However, on the other hand, the significance value it has is of 0.236 is greater than alpha 0.050 therefore, it may be said that the auditor moving cannot affect how managerial ownership affects SR disclosure. So, it can be concluded that H5 in this study was rejected.

6. Based on Table 4, the interaction between the financial distress variable and the auditor switching has a coefficient value of -0.056. This figure shows that the influence of financial distress on SR disclosure cannot be mitigated by the auditor switching as an intervening variable. This demonstrates that businesses in financial hardship and those whose auditors are changing are more likely to disclose that their SR is declining. However, businesses with minimal levels of financial hardship and moving auditors will show SR. On the other hand, it may be said that since the significance value is 0.420 bigger than alpha 0.050, auditor switching is unable to mitigate the impact of financial difficulty on SR disclosure. This study's conclusion H6 was disregarded.

7. Based on Table 4, the interaction between the auditor switching variable and the disclosure of sustainability has a coefficient value of -0.032. This number implies that the effect of an auditor switching as an intervening variable on SR disclosure cannot be altered. This demonstrates that businesses with changing auditors are more likely to admit that their SR is decreasing. Firms with low levels of auditor switching, on the other hand, will show SR. On the other side, it can be said that since the significance value is 0.520 bigger than alpha 0.050, auditor change cannot affect SR disclosure. This study's conclusion H7 was disregarded.

5. Conclusion

According to the findings of this study, institutional ownership has a negative effect on SR disclosure, whereas managerial ownership and financial distress have no effect on SR disclosure. Institutional ownership, managerial ownership and financial distress intervene by auditor switching effect, the disclosure of SR, but auditor switching of the company failed to intervene the influence of managerial ownership and financial distress on SR disclosure. According to this study, the disclosure of SR in mining companies in Indonesia is still very

low, at 19.3%. The limitation in this study is that the researcher uses a dummy variable which only looks at the company express SR or not. Suggestions for research the next step is to pay attention to the extent of disclosure and quality of SR content by looking at the indicator's disclosure in accordance with the Sustainability Guidelines GRI reports.

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