

CHAPTER 1

Introduction

1.1 Background

One of the most prominent issues, Sustainability is evolving rapidly and becomes a world top concerned issue in the business environment (Ballou, B., Heitger.L, & Landes.E, 2006). Institutions as well as new rules and regulations were established worldwide in order to implement a better financial system that grows in a sustainable and stable manner and to protect the interest of consumers and the society in a fair, transparent, and accountable manner (OJK, 2011). According to (Young, 2011), both financial regulators and companies are starting to recognize the importance of growth and profitability that comes from sustainability, hence for the last decade Sustainability or Company Social Responsibility (CSR) had developed into a global phenomenon and successfully penetrates into core business strategies.

According to the AICPA, the term Sustainability accounting means involves in linking sustainability initiatives to company strategy, evaluating risks and opportunities, and providing measurement, accounting and performance management skills to ensure that sustainability is embedded into day-to-day operations of the company. Sustainability accounting also interchangeably called with the term CSR (Corporate Social Responsibility). With the trend of Corporate Social Responsibility, realization arise from organizations that meeting stakeholder expectation and maximizing shareholder value is not enough that they have to move beyond the earnings game, by creating long term economic value for the society (Ballou, B., Heitger.L, & Landes.E, 2006). Having social and environmental value, which should be integrated in terms of

financial reporting, creates the value. The sustainability in accounting in companies complies “Triple Bottom Line”; Economic viability, social responsibility, and environmental responsibility. The purpose of Triple Bottom Line is to present a wider set of non-financial and financial statement not just to the shareholder, but as well as to the stakeholders (GRI, Sustainability Reporting Guidelines, 2011). The reporting of sustainability accounting is based on the most dominating reporting guidelines, rules, and regulations, Global Reporting Initiative (GRI). GRI was established in 1997, served as basis of GAAS and built guidelines of reporting standards to be standardized worldwide as a framework called G3 Reporting Framework. Moreover, United Nations also works closely with GRI that leads to dramatic increase in the adoption of the GRI Standards for companies worldwide to apply the standards and issuing the corporate sustainability reports. According to (GRI, 2011), Internationally GRI have been applied by more than 60 countries around the world in having some or all of its standards while issuing the corporate sustainability report.

From the past decades the reason why the Indonesian companies are required to do Sustainability reporting is because of the emerging concern regarding CSR issues that resulted in many cases which happened in the community. The example of one the most popular CSR related issue in Indonesia is the hot mudflow in Sidoarjo, East Java, Indonesia that is caused by inaccuracy in during their drilling action. According to Yennie Dwi, 2009, the negligence of PT. Lapindo Brantas has caused the hot mud spurt for years and lunged houses, factories, streets, and destroy the community which create a bad impact to the society, health, environment, and economy. In addition, according to the source, the promised compensation that is supposed to be given are not fulfilled yet (Jatam, 2009). After the incidence happening all across the country, realization arise

from regulatory bodies to implement the GRI sustainability reporting standard in order to balance the social, economic and environmental objectives for long term benefit of the economy to emphasize more on corporate governance and transparency on sustainability reporting (Asian Sustainability Rating, 2010). Actions that are taken by the regulators body in Indonesia is to established a new financial regulator firm, Otoritas Jasa Keuangan (OJK, 2011).

Otoritas Jasa Keuangan (OJK) is Indonesia's latest independent institution that was established given the authority and duties to control over Indonesia's financial service factor by regulating, supervising, examining and investigating the issues happening. The purpose of OJK (Financial Service Authority) establishment is to make certain the activity within the financial service sector to be implemented in transparent, organize and accountable, leading to a sustainable and stable manner, and protecting consumer and society's interests. With the authority and function duties being transferred to Indonesian FSA from the minister of finance and capital market and financial institution supervision agency (BAPEPAM), Indonesian FSA is now the leading institution in terms of promoting and organizing system of regulations and supervisions to be adapted to the activities in the financial service sector (OJK, 2011).

Before the establishments of FSA, sustainability reporting has been done by some public listed company; applying to the PSAK that adopts IFRS which include the GRI guidelines on sustainability reporting. Based on Government regulation No. 47 (2012) No. 5 and 6, companies are held accountable for financial resources *allocated for sustainability activities*. *After the realization of how important* sustainability reporting, and how companies are suppose to held accountable for financial resources allocated for

sustainability activities, the act of FSA was endorsed. With the new regulation from FSA, nowadays public listed companies are essential to do sustainability reporting.

1.2 Research Problem

Sustainability reporting is essential in today's world; in promoting transparency and petition for feedback of the firm's financial performance and supports community and stakeholders by the relationships built and maintained with the external parties. This study surveys on the integration of sustainability reporting in Indonesia by the influence of FSA existence. This study is focuses on how many public listed companies in Indonesia are adopting the sustainability reporting after the act of FSA is established. Specifically, the study evaluates whether the existence of FSA regulation influence the integration and adoption of sustainability reporting in top 100 public listed companies in Indonesia.

1.3 Scope

The scope of this research will seek the effectiveness of the FSA regulation towards the adoption of sustainability reporting in Indonesia's public listed company. Note that the companies selected are the large companies that are active and highly noticeable, therefore, the data of Indonesia's public listed company are taken from top 100 public listed companies according to Kompas 100 that:

1. Have produce financial reports at least for the last two years (period 2011 and 2012),
2. Have implementation or adoption of sustainability reports as separate reports or to be included in the financial statement, and
3. Has changes in the Sustainability reporting format after the FSA regulation

This study will focus mainly on the survey to observe whether the top 100 public listed companies in Indonesia are influenced by the FSA regulation to adopt the Sustainability reporting.

1.4 Aims and Benefits

This study will aim to generate data from the financial statements of Indonesia's top 100 public limited company to see whether the existence of FSA regulation influences and creates the impact of the standard reporting of sustainability. The benefits of this study are as follows:

1. For accounting professionals (Accountant, auditor, etc):

This study helps accounting professionals' information about economic, social and governance performance. With this, they can control the financial resources within the company that is allocated or related to the sustainability reporting activities and reporting.

2. For companies and organization:

This study will show the effectiveness of the newly established regulator in Indonesia. The result of this study will show an impact of FSA regulation towards the Indonesian public listed company's sustainability reporting standard. Secondly, by the adoption of sustainability reporting standards being set, transparency and disclosure can be assessed easily.

3. For students:

This study can give students a better understanding of sustainability reporting in the financial statement's structure which includes the 3 important elements; social environment, and economic.

4. For academics:

This survey and research will give a feedback to the community whether the newly established FSA existence could influence Indonesia's leading top 100 public listed company's financial reporting standard.

5. For future research:

This thesis will provide a better understand of FSA and will provide a direction for future researches regarding sustainability in Indonesia.

1.5 Thesis structure

This study consists of five chapters and presented as follows :

Chapter 1: Introduction

This chapter consists of the Background, Scope, Aim and benefits of this paper. It introduces the reader to the increasing focus on the concept of sustainability, FSA regulation, and why the research is conducted. The relation of Sustainability accounting and the existence of FSA are also briefly discussed in this chapter.

Chapter 2: Theoretical Foundation

To learn the problems and issues found in Chapter 1, the theoretical basis will be discussed to support the solution. The fundamental concept of sustainability, FSA, and the influence of the newly established regulations are also discussed in this chapter. Previous researchers that had evaluate the link between the adoption of sustainability reporting are also provided and can be found in this chapter

Chapter 3: Research Methodology

The process of developing research design, data collection techniques and data analyses are included in this chapter. Moreover, the information collection system, statistical software, and research method will be discussed specifically.

Chapter 4: Findings and Discussion

This chapter includes the results that are derived from the collected data in the previous chapter. In depth discussion about the result and probable solution is also included.

Chapter 5: Conclusion and Recommendations

The last chapter includes the overall research performance and summary of the findings in the study. Recommendations towards organizations will be listed. Limitation of this research will also be discussed in chapter 5 continued by the possible area for future research which includes recommendation on improvements.