CHAPTER 2

Theoretical Foundation

2.1 Assessment of Shareholder Theory

Shareholder theory is a fundamental theory; increase efficiency in production to generate maximum welfare for society when corporations maximize their shareholder value (E. Garriga & D. Mele, 2004). Shareholder theory has its own advantages and drawbacks as it has been applied. In both academic and industrial communities, shareholder has been a fundamental theory for the past four decades (Tse, 2011).

Shareholder theory's primary objective is to maximize the wealth of its shareholders (Friedman , 1962). To reach the harmony of both managers and owners is to invest in projects that can generate maximum value for the investors. Maximum value generated for the investors are derived in order to support agency theory; increase efficiency and reassure the firm which leads to increase in firm's value due to financial incentives being rewarded to managers despite of their efforts. In addition, during the development stage of profit maximization, business firms will be encircled by customer demand, technology, production scarcity, and legal constraint. According to (Smith, 2003) not only short term profit maximization will be granted, but long term benefit for economy will be acquired too in shareholder theory.

However, According to (Tse, 2011), the obstacles discover from the implementation of shareholder theory is not because of the theory implied, where the main obstacles is derived from the deployment.

To maximize the interest of both manager and investors, financial incentives are rewarded as the firm's value increase. In this point, managers will definitely find a way in controlling the share price or value of the firm to get more benefits, however they only have control over the drivers which can indirectly influence the value; capita investment, strategy of the firm and overall cost (Beinhocker, 2006). In addition, the effect of Shareholder value is to maximize the present value of all future cash flows, therefore managers can adjust the value of the the firm simply by increasing the future cash flow and decrease the cost of capital and improving growth.

This model turn out not to be efficient, as managers wants to maximize profit they appear to manipulate the data and abuse the model. Until now, fraud will most likely happening in company applying the shareholder method because there are unlimited ways to abuse and exploit the model. For example, to increase the revenue of a bank is to expand their asset or making acquisition, or to lower the cost of capital by increasing the leverage of the firm (Shin, 2009). The increase of leverage will leads to high risk for the company as they are more prone to the "dark side: of wholesale funding (Huang and Ratnovski, 2008). With the method above being applied to the banking industries, the bank itself will suffer liquidity problems especially in the financial crisis. Last but not the least, according to (Tse, 2011), linking remuneration to corporate performance, managers are more likely to make irrational decisions that will allow them to increase their earnings.

2.2 The beginning of Corporate Sustainability.

Corporate sustainability arise in the past few decades due to anxiety among citizens , investors, and governmental agencies in various countries due to the globalization, global financial crisis, fraudulent act in organization, and environmental disaster. According to (Moneva J.m, J.M, & Munoz Torres, M.J, 2007), Public started to realize the inter-relationship between the activities of companies and the society as a whole. With the occurring realization, firms started to recognize and accept the concept of Corporate Social Responsibility (CSR) over the value maximization approach, shareholder theory. After the emergence of CSR concept, companies found out that profit gain does not always affect company's value, where as companies who earn high profits also ended up looking at their market value decrease in a glance (Bishop & Beckett, 2000). According to (Porter and Kramer, 2006) in terms of employment policy, human rights, competitive prices and company influence towards environment, shareholder theory is just not the right measurement to use. Due to all these inappropriate reasons and factors of shareholder theory implementation, therefore, the emergence and implementation of sustainability concept is currently at its peak.

World Commission for Environmental and Development is the first organization who firstly popularized the concept of Corporate Sustainability which emphasis mainly in the importance of environment, social and economic performance of industries (WCED, 1987)According to (M, 2003), there are 4 underlying concepts of Corporate Sustainability

Figure A: Corporate Sustainability

(Source: Wilson, 2003)

2.2.1 Sustainable Development Theory and Its Application in Indonesia

One of the theories that rely under corporate sustainability is Sustainable Development Theory. There are some definitions of Sustainable Development.

According to (Global Development Research Center, as cited in Puspasari 2008), Sustainable Development theory is:

" *Maintaining a delicate balance between the human need to improve lifestyles and of well- being on one hand, and preserving natural resources and ecosystems, on which we and future generations depend."*

Another definition comes from (Brundtland Report of World Commission on Environment and Development (WCED), as cited in Puspasari 2008):

"Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs."

According to Puspasari (2008), sustainable development is closely linked to the environment. On the other hand, according to Ellington (as cited in Ricart et al. 2005), firm's ultimate objective is not only to create value for its shareholders, but rather three fold; create economic, ecological, and social value.

Moreover, for future life, building sustainable enterprises and an economic reality that connects industry, society, and the environment are needed for the future are proposed by the researchers (O'Dwyer, 2005). Nevertheless, efficiency cost savings and product stewardship, acquisition of strategic resources and capabilities, and development of learning and dynamic capabilities are advantages that firm might get in adopting sustainability strategies (O'Dwyer, 2005).

Indonesia is a developing country who holds one of world's most biggest population, besides population, Indonesia also has a substantial capital investment in industry, which was generated by exporting natural resources, fossil fuels, minerals, and wood/forest products. Unfortunately, Indonesia's biggest weakness is its environments being polluted badly and inefficient. The environmental industry has not done a proper treatment in managing the waste and lack of care from industries hence, an aid towards the environment is needed especially in this globalization era. Indonesia's leading companies cooperate and export overseas, and to survive in the international competition they need to clean up their acts to bolster their bottom lines. Guidelines for environment practice and recycling as part of cleaner production should be set by government to have a better environment for the community. (Nazech 2001).

2.2.2 Stakeholder Theory

Being supported by both academic and industrial society, Shareholder theory had been widely adopted for the past few decades. But due to fraudulent activities, realization about the importance of stakeholders such as; employees, customers, and suppliers is a significant matter to companies (Giannarkis, G., & Theotokas,I., 2011). Stakeholder theory slowly started to replace the concept of profit maximization that indicates the profit making as the sole target of the company (Curran, 2005). The emergence of CSR makes the Stakeholder theory complete and applicable to the community as the theory fulfills the environmental and social demands (Tse, 2011)

Evan and Freeman (as cited in Peters & Mullen, 2009) states that stakeholder management is important as stakeholder groups influence the efficiency of a firm's strategy either directly or indirectly. Thus, it is important to understand stakeholder theory.

The inventor of Stakeholder theory, R Edward Freeman, defines stakeholder as "Any group or individual who can affect or is affected by the achievement of the organization's objectives". The general perception of stakeholders is employees, shareholders and investors, suppliers, and governments. Stakeholder theory implies strategic management concept; support corporation's relationship with external groups to develop a competitive advantages (M, 2003). With Stakeholders theory framework, shareholders is also a part of multiple stakeholder groups that manager should involve in their management decision making (Clarkson, 1995)

Referring to the Stakeholder theory, to achieve a success in business world, considerations should be taken into account on different stakeholder groups' goals and demands (M, 2003). In this current modern business world, in order to obtain and support and approval from business individuals and firms, it is crucial to have a good public relation and image towards the stakeholders (Oeyono, K., Samy,M., & Bamptom,R., 2011)

Different groups have different priorities which make it more difficult and challenging for managers to pleased (Ruf, B. M, Muralidhar, K., Brown, R. M., Janney, J. J., & Paul, K, 2001). For instance, when parties are demanding for maximum return on their investment, conflict of interest will appear among the stakeholders. To solve these issues, firms should have their own strategy and ways to deals with the stakeholders and in prioritizing the various groups of stakeholders. ((Moneva J.m, J.M, & Munoz Torres, M.J, 2007); (Tse, 2011)).

With incomplete framework defined, Stakeholder theory is sometimes troublesome. The emergence of sustainable development often creates many arguments between parties, due to different perceptions of stakeholders who should actually be (Streuer, 2006).

Firms may attain plentiful advantages in implying stakeholder theories simply when they pay attention to all shareholders. The effects of Stakeholder theory are; companies that apply stakeholder theory are more likely to have more motivated employee who leads to a more developing firm effectiveness, and there might be also customers who are willing to pay premium prices for the product.

To sum up, there is no certainty in theories; there must be weakness on it, hence compared to shareholder theory which has been implemented in real business world for a longer period of time, stakeholder theory provides a better and clearer beneficiary and goal (Philips, R.A., Freeman, R.E., & Wicks, A, 2003)

According to (Kochan,T.A.,& Rubenstein,S.A., 2000), without the underlying concept, theories and framework, it is troublesome for companies and managers to respect the obligation and prioritizing each group of the shareholders.

2.2.3 Corporate Social Responsibility (CSR)

Another concept of corporate sustainability is CSR, Corporate Social Responsibility. This concept is emerged back there during the 1950s when the business organization started to develop. Over the years, issues around social, environmental, and economic are everywhere; hence, the concept of CSR is to overcome those issues.

There are numerous definitions of corporate social responsibility. According to Commission of European Communities (2001), CSR is defined as "A Concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis". The definition of CSR illustrated by the Commission of European Communities is the best definition according to the research done by (Dahlsrud, 2006)for Wiley Inter science because it covers the whole dimension; stakeholder, social, environmental, and economic. Moreover, (Dahlsrud, 2006)also exemplify five dimensions, on how the coding scheme was applied and examples phrases which is shown in Figure A below.

Figure B

The five dimensions, how the coding scheme was applied and example phrases

Source: Dahlsrud, A 2006

A. Dahlsrud

Dimensions	The definition is coded to the dimension if it refers to	Example phrases
The environmental dimension	The natural environment	'a cleaner environment' 'environmental stewardship' 'environmental concerns in business operations'
The social dimension	The relationship between business and society	'contribute to a better society' 'integrate social concerns in their business operations' 'consider the full scope of their impact on communities'
The economic dimension	Socio-economic or financial aspects, including describing CSR in terms of a business operation	'contribute to economic development' 'preserving the profitability' 'business operations'
The stakeholder dimension	Stakeholders or stakeholder groups	'interaction with their stakeholders' 'how organizations interact with their employees, suppliers, customers and communities' 'treating the stakeholders of the firm'
The voluntariness dimension	Actions not prescribed by law	'based on ethical values' 'beyond legal obligations' 'voluntary'

Numerous interpretations and perceptions of CSR have been made, but until today there is still no universal definition of the term CSR (Turker, 2009). Beside Commission of European Communities (2001), the World Business Council on Sustainable Development defines CSR as:

"CSR is a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis. Corporate social responsibility concerns actions by companies over and above their legal obligation towards society and the environment".

Another definition comes from Bloom & Gundlach (as quoted Lantos 2001) defined CSR as:

"The obligations of the firm to its stakeholders – people and groups who can affect or who are affected by corporate policies and practices. These obligations go beyond legal requirements and the company's duties to its shareholders. Fulfillment of these obligations is intended to minimize any harm and maximize the long-run beneficial impact from the firm on society".

We can see the repetition of words; people, society, stakeholders, economic, social and environment from the corporate social responsibility theory above. Nevertheless, we can conclude that companies especially business firms are entitled "Social Contract" to society. With CSR, organizations and firms are supported to be more concern about the society, considering the impact of actions to society; minimizing negative effects and maximizing the positive effects.

According to (Curran, 2005), Three dimensions of CSR are, "First is that no action should be taken which violates another's individual rights. Second, recommendations must be responsible in the sense that they do not ignore the context, purpose and basic contractual commitments of those to whom the recommendation is made and third the moral dimensions of an action should always be given serious attention".

Before, CSR is just a voluntary activity, but now CSR turns out to be a big part of strategic planning for firms. Nowadays, besides generating profit, companies are also focusing on activities that "give back" to the society and environment.

Community started to aware about the sustainable development, as the WCED (World Commission on Environment and Development (WCED, 1987)) stated that:

"Globalization, environmental disasters and large-scale industrial changes have generated new concerns and expectations among citizens, consumers, governmental agencies and investors on the impact of economic activity on sustainable development".

Both economic and non-economic effort can be achieve in applying corporate social responsibilities. Moreover, with applying corporate social responsibility to firms, benefit and advantages such as better management of overall operations and closer ties between firms and community will be sowed. For instance, the National Basketball Association (NBA) in United States has their own CSR program called "NBA Cares", with the purpose to "give back" to the community. NBA Cares is the league's global community outreach initiative that addresses important social issues such as education, youth and family development, and health and wellness. The NBA and its teams support a range of programs; partners and initiatives that strive to positively impact children and families worldwide (NBA, 2013). With NBA cares, basketball players are more aware and concern towards the community especially in giving back and supporting the environment issues.

2.2.3.1 CSR in ASEAN countries

ASEAN countries are becoming a significant player on the international scene (ASEAN Statistics). With a total GDP of US$1,496,341 million dollars, 10 countries that are included in ASEAN; Brunei Daarussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam are developing satisfactorily. With 10 developing countries situated in Southeast Asia, the potential of the developing countries have increase tremendously.

CSR has been long implemented and developed in the Western countries; hence, applying and adopting CSR in Asian countries will take a longer time due to the developing stage on the countries (Brohier, 2009). Trade, business and connections between the Western countries and Asian have increase significantly and still counting, thus with Globalization happening all across the nations around the world, many Multinational Company (MNC) decided to invest in developing countries, especially in Asian countries (Chapple et al., 2005). Developing countries are usually at their developing stage in terms of economic growth; therefore, it attracts more investor to invest in SEA which has more room and opportunities for economic growth which leads to transparent view in terms of CSR.

Concern about global issues, especially scandals in corruption and the growing rate of poverty had lead Asian countries to the worldwide sustainability spotlight. Moreover, according to CSR Asia in 2012, the government and policy makers in countries across Asia started to be strongly concern in adopting CSR rules and regulation to the activities of business that could affect society as a whole.

For instance, Singapore is a well-developed country in Asia, programs and incentives for companies who are involved in sustainable development are created and given by the local government. Programs covering energy and water efficiency, transportation and other environmental innovation projects are currently Singapore top 30 sustainability programs. (CSR Digest, 2009)

Besides Singapore, the emergence of sustainability are also started o be adopted all across Asia. China and India, who holds the world most population in the world, are also targeting efficiency and innovation in order to support sustainability in their country's businesses. According to (CSR Digest, 2009):

"Governmental tax incentives and rebates can be extremely advantageous to a business that is seeking capital to start any CSR programs."

Indonesia's neighborhood country, Malaysia are also supporting the CSR implementation, therefore, government imposes requirement of companies to incorporate Environmental, Social, and Governance (ESG) issues into their management process (Ambali, 2011).

CSR is no longer a new issue, not to mention Indonesia, one of the world most populated country. With the recent enactment of the Article 74, of Law No.40 /2007 (Limited Liability Company Law) which states that CSR is no longer a matter of voluntary choice, but an official obligation of the major companies engaged in natural resources that operate in Indonesia.

2.2.4 Corporate Accountability Theory

According to (Tse, 2011), One of the major problems with sustainability reporting is that there is no fixed framework on measuring the corporate social performance or corporate sustainability of firms. Corporate sustainability's benefit is more to the importance of measuring and reporting initiatives (Stuart M. Cooper & David L.Owen, 2007), therefore many researchers and organization been trying to solve the issue by providing guidelines and indices. One of the examples is Bell and Morse, the author of the bestselling book, *"Sustainability Indicators: Measuring the Immeasurable (2008)"*. In this book, the author evaluates the success of sustainability measures up to 2008; moreover they argue, "The approach to measurement is always based on an individual's vision of sustainability which in turn can be changed depending upon the measurement mindset". The statement implies that measurement of sustainability has always been based on individual judgment and not from a framework, therefore, a framework should be establish to truly measure the sustainability (Moneva J.m, J.M, & Munoz Torres, M.J, 2007)

Sustainability is a major worldwide issue, hence many attempt done by the researchers to find and create the most effective methods of measuring and reporting CSR. However, according to (Moneva J.m, J.M, & Munoz Torres, M.J, 2007), These show the relevance of diverse reputation indexes and the content analysis of Corporate reports on social or environmental matters as the basic measures used in the evaluation of the CSR results".

To support the sustainability issue, organization and businesses are now starting to provide social reports and support CSR activities (CSR Asia, 2011). Until today, they are currently around 3916 organizations that are listed in GRI database. According to (Gray, 2006), social reporting especially by large multinational firms are on the rise and gaining popularity.

According to Wood (1991), Sustainability reporting is defined as:

" *The degree to which principles of social responsibilities motivate actions taken on behalf of the company, the degree to which the firm makes use of socially responsive processes, the existence an nature of policies and programs designed to manage the firm's societal relationship and the social impact of impact of firms action, programs, and policies".*

Researched have shown that benefits can be reaped by social disclosure and reporting (Gray, 2006). Product, brands, and company also can gain more attention from investor and attract talented employees to join the community. Moreover, another benefit is that they can satisfy the pressures and demand of multiple stakeholders through social disclosure, and meet the needs and expectations of audience (Moneva J.m, J.M, & Munoz Torres, M.J, 2007).

3.1 Sustainability Framework

Researchers have spent years to develop the best framework or theories to be standardized and to be applied to company's sustainability reporting standards performed by organization and business.

According to (Gray, 2006), the basis of the literatures is to develop the ideas of the "organizational legitimacy, social contract, democracy and accountability and the implications of sustainability reporting". Accountability is needed to have a justified and structured sustainability reporting; therefore, relation and recognition from law are needed to support the social contract between society and companies (Gray et al, 1998).

(Gray, 2006) then proposed a compliance with standard report to be the core of sustainability reporting. In addition, clarification made by Gray that the company to meet the responsibilities towards the society and community should disclose report. As a result, to make sustainability reporting more effective, it should be accountable which can only be done by legitimating and society support.

3.2 The Emergence of Sustainability Reporting

Currently, the main problem that financial industry in Indonesia is facing is the merging of bank with other financial industry with weak implementation of good corporate governance (Setyo, 2010). Problems regarding good corporate governance will not end only with the shift of authority control; hence, a legit in rules and regulations must be complying by Indonesian governance to strengthen all dimensions of social, economical and environmental. To solve all these problems, recently in 2012, Indonesia established a new firm called as Otoritas Jasa Keuangan (OJK), which is Indonesia's Financial Service Authority (FSA).

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. (OJK, 2011)

" OJK deliberately set up to restructure the functions of regulation and supervision of financial services in the areas of governance, risk management, supervision and quality control," said by Deputy Commissioner of the Financial Services Authority Drs. Anis Baridwan, MBA when speaking at Gadjah Mada Accounting Days 2013 Seminar " Improving Economy Through Sustainable

Development and Responsible Governance ", in auditorium MM UGM.

On the other hand, Senior Economist at Standard Chartered Bank Indonesia Fauzi Ichsan argues that , *"OJK is due to the formation of laws, not because of economic realities".* (Brathadarma, 2012)

"The reason principles of good corporate governance must be adopted by companies to support transparency, accountability, responsibility, independence and fairness. In the CSR implementation roadmap, required the provision and governance agreement by each company that emphasizes ethics and responsibilities as members of society" added *by* Deputy Commissioner of the Financial Services Authority Drs. Anis Baridwan, MBA

First of all, the establishment of Financial Services Authority urgency formation of Indonesia's FSA is the mandate of the Act No.3 of 2004 on Bank Indonesia, which means that when the FSA still has not formed at a predetermined time, then there is a violation of the act. FSA begin with the idea of "Mini FSA" who only supervise bank solely, and then it expands to banking supervision and other financial services. In many countries such as United Kingdom, FSA is proved unsuccessful, but Indonesia wants to follow the successful of FSA in Japan and Germany. FSA are establish make certain 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. (Setyo, 2010)

Authority, duties and responsibilities of FSA is a base in monitoring the implementation of financial service sector. The lists below are the authority of FSA retrieve from (OJK, 2011):

- First , establish provisions regarding the requirements and procedures for establishing , licensing of banks set provisions regarding the requirements and procedures for opening bank branches , as well as the opening of a branch office , branch offices and representative office from a bank domiciled abroad .

- Second, set the terms of the Indonesian citizens, foreign nationals , Indonesian legal entities and / or foreign legal entities can buy bank shares , directly and / or through the stock exchange .

- Third, establish provisions regarding the change of ownership, merger , consolidation , and acquisition of banks

- Fourth , supervision of inspection activities and obligations including the provision of information by banks set lending guidelines and regulations on payment and lending limit or financing based on Islamic Principles , provision of guarantees , investment placement of securities or other similar terms , as defined in regulations in the field of Banking and Islamic Banking .

- Fifth, establish provisions on bank secrecy.

- Sixth, establish provisions on criminal sanctions and administrative sanctions.

- Seventh, have other powers provided for in the Law on Banking and its implementing regulations.

The presence of FSA is designed to avoid the power of abuse which is likely to rise. Because of FSA, oversight functions and settings are made separately. However, despite FSA has regulatory and supervisory functions in the body, its functions will not overlap, because the organizational FSA consist of seven council commissioner. Chairman of the Board will be in charge of the three members of the board of commissioners, each representing banking, capital markets and non-bank financial institutions (NBFIs) . Banking supervision authority by Bank Indonesia will be reduced, but still assist supervision of Bank Indonesia. (Setyo, 2010)

3.2.1 The Emergence of Sustainability Reporting in Indonesia

Currently, the main problem that financial industry in Indonesia is facing is the merging of bank with other financial industry with weak implementation of good corporate governance (Setyo, 2010). Problems regarding good corporate governance will not end only with the shift of authority control, hence, a legit in rules and regulations must be comply by Indonesian governance to strengthen all dimensions of social, economical and environmental. To solve all these problems, recently in 2012, Indonesia established a new firm called as Otoritas Jasa Keuangan (OJK).

3.2.2 Sustainability Reporting in Other nations

Australia sustainability reporting stated that the survey that is done base on the public and private companies shows that 23% of Australian companies produced sustainability reports or sustainability section in their annual reports (Welford, 2004).

The most common reasons of companies to issue sustainability reports is for their reputation, which can gain investor, insurers, and financial instructions' confidence. Besides confidence, the company also can get operational and management improvement, and improved management risk benefit.

Not only in Australia, but in research also done in China by Syntao, who reviewed the sustainability reporting in china in Beijing based sustainability reporting consulting firm. The Research concludes that the reason why emergence of sustainability reporting in China is enormously is because it raise the enterprise image, support government policies, and increase enterprise management consciousness and media pressure. On the other hand, sustainability reporting also can promote images, enhance communication, stimulate implementation on CSR, attract investors, and increase overall company performance. (Canning, M. & O'Dwyer.M , 2013)

3.3 Triple Bottom Line

Triple bottom line or TBL theory is a theory originated by John Elkington. John Elkington stated, “There is an urgent need of an accounting framework that incorporates the stakeholder as one of the important dimensions of business”. Consequently, the TBL framework is initiated, that there are three dimensions of corporate performance; Social (People), Environmental (Planet), and Financial (Profit) or in other words, the “3P” (Slaper & Hall, 2011).

A measurement for sustainability is needed, but Triple Bottom Line theory doesn’t provide ways to the measurement. Therefore, many theories and indices are invented and proposed to overcome the limitation of TBL. The examples of indices that are created to support the TBL are; Dow Jones Sustainability Index, Environmental Sustainability Index, Asian Sustainability Rating, etc. Still, after these indices being introduce to measure the sustainability, the issue still prevails that there is no universally accepted framework and measurement for sustainability (Norman & MacDonald, 2004).

After the emergence of TBL theory by John Elkington, some parts of its reporting standards and framework are adopted and being developed into new standardized framework such as; GRI reporting, UNEP/ Sustainability (1997) and Deloitte Touche Tohmatsu International Scorecard. These firms are very competitive to be the leading sustainability framework on how CSR should be reported as according to

(Hassan and Harahap, 2010) CSR should inform society about the companies ethical accountability to its stakeholders.

4.1 Global Reporting Initiative (GRI)

As mentioned before, standardization on sustainability reporting has not been made, hence the most significance framework for the sustainability reporting is the Global Reporting Initiative (GRI) (Brown et al, 2007). Global Reporting Standard guidelines are based on the underlying theory of Triple Bottom Line which consist of three dimensions; economic growth, environment protection, and social welfare (Isaksson, R., & Steimle, U., 2009). The three dimensions in the framework is the reason why GRI guideline is considered as the most complete framework for the sustainability reporting.

"The Global Reporting Initiative (GRI) is a network-based organization that has pioneered the development of the world's most widely used sustainability reporting framework and is committed to its cotinous improvement and application worldwide"(GRI, 2011).

Brown et al, (2007) states that "GRI provides a guideline and assistance to companies who wish to disclose on how they should report their sustainability reporting and sustainability measures. To reach the goal of the development of sustainability and reporting which include economic, environmental, and social factor, sustainability reporting needs to be accountable to both internal and external stakeholders. Due to its relevancy, GRI Standard reporting have been adopted worldwide in more than 1000 companies in 35 countries (Isaksson,R., & Steimle,U. (2009).)

Global Reporting Initiative report consist of five sections; Vision and Strategy, Profile, Governance Structure, GRI Content Index and Performance Indicators which are distinguish by the three dimension; Economy, Environment, and Society. The three dimensions are breakdown further into six performance indicators. It is shown in the table below:

Figure C: GRI Performance Indicators

Area	Issues
Economic	Economic Performance; Market Presence; and Indirect Economic Impacts.
Environmental	Materials; Energy; Water; Biodiversity; Emissions, Effluents, and Waste; Products
Labor Practices & Decent Work	Employment; Labor/Management Relations; Occupational Health and Safety; Training and Education; Diversity and Equal Opportunity; and Equal remuneration for women and men
Human Rights	Investment and Procurement Practices; Non-discrimination; Freedom of Association and Collective Bargaining; Child Labor; Prevention of Forced and Compulsory Labor; Security Practices; Indigenous Rights; Assessment; and Remediation
Society	Local Communities; Corruption; Public Policy; Anti-Competitive Behavior; and
Product Responsibility	Customer Health and Safety; Product and Service Labeling; Marketing Communications; Customer Privacy; and Compliance.

Source: (GRI, 2011)

The GRI guidelines contains principles and guidance which consist of standard disclosures, indicators that include outline of disclosure framework the organization can voluntarily, flexibly, and incrementally, and adopt. The Sustainability reporting guidelines consist of Protocol and Sector Supplements.

"The Framework is developed through a process … the process is open, inclusive and takes a global perspective on the growing understanding of good reporting on key sustainability issues…. Protocols are the "recipe" behind each indicator in the Guidelines and include definitions for key terms in the indicator, compilation methodologies, intended scope of the indicator, and other technical references. … Sector Supplements complement (not replace) use of the core Guidelines by capturing the unique set of sustainability issues faced by different sectors such as mining, automotive, banking, public agencies and others" (Global Reporting Initiative, n.d).

Figure D

The GRI Reporting Framework

Source: Global Reporting Initiative (2010)

Global Reporting Initiative guidelines are divided into two board section. Part1 is the G3 principles and guidance as stated in Sustainability reporting Guidance of GRI:

- Principles to define report *content*: materiality, stakeholder inclusiveness, sustainability context, and completeness.
- Principles to define report q*uality*: balance, comparability, accuracy, timeliness, reliability, and clarity.
- Guidance on how to set the report *boundary*.

(GRI n.d)

Part 2 consists of three Standard Disclosures, which purpose of appliance is to identify information that is relevant and material to most organizations and of interest to most stakeholders:

1. *Strategy and Profile*: Disclosures that set the overall context for understanding organizational performance such as its strategy, profile, and governance.
2. *Management Approach*: Disclosures that cover how an organization addresses a given set of topics in order to provide context for understanding performance in a specific area.
3. *Performance Indicators*: Indicators that elicit comparable information on the economic, environmental, and social performance of the organization.

(GRI n.d)

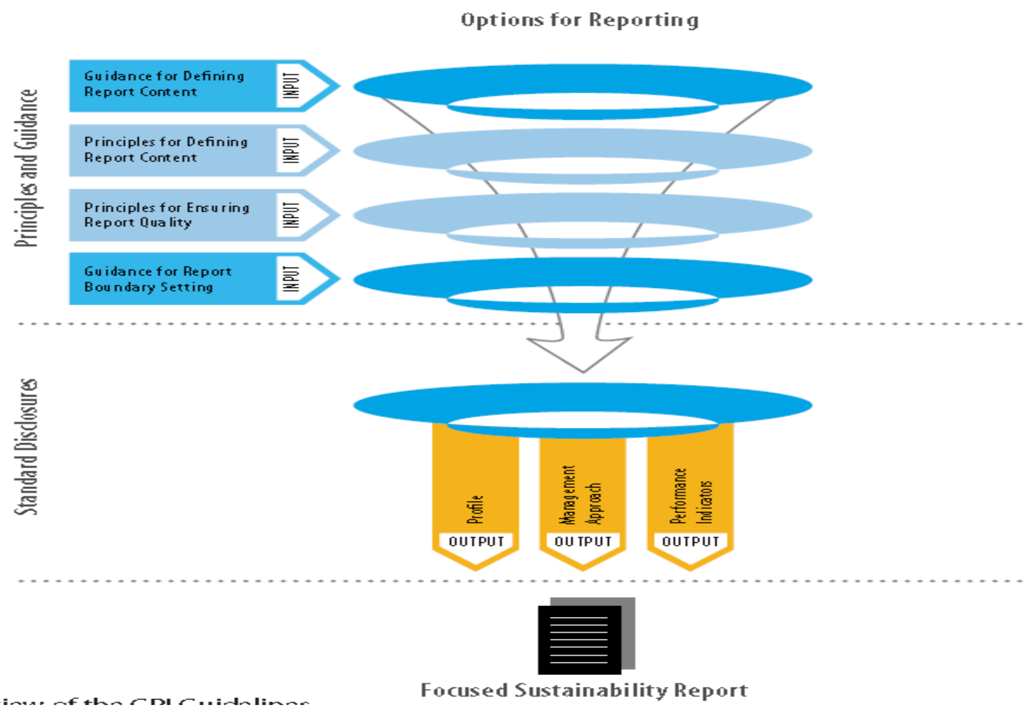

Figure E

Overview of the GRI Guidelines

Source: Sustainability Reporting Guidance (2010)

Global Reporting Initiatives framework is the most relevant reporting standard, hence there is still a room for improvements since they are still overcoming problems and deficiencies underlying in the framework. Measurement of CSR activities is no longer a new thing to be solved, and until now there is still no fix formula in determining CSR activities (Canning, M. & O'Dwyer.M , 2013). To measure the sustainability in CSR activities, it is sensible for company to meet as many indicators as possible in relation to the GRI framework. According to (Yang & Yaacob, 2012), *"Although the index may not capture the real or "realized" CSR practices of the company, it measures what the management would their stakeholders to be familiar with".*

4.1.2 GRI 3.1 Adoption in Indonesia

A GRI 3.1 guideline is a common guideline to be adopted by the Indonesian companies on publishing the sustainability reports. GRI 3.1 are introduced by the NCSR (National Center for Sustainability Reporting) to the officials that are involved in sustainability reporting in Indonesia to increase the sustainability reporting quality in Indonesia. Established in June 23, 2005, NCSR stands as a stakeholder organization of GRI which consisted of five interdependent organization. The members of five independent organization are, IAMI (Indonesian Management Accountants Institute), INA (The Indonesian Netherlands Association), KNKG (National Committee on Governance), FCGI (Forum for Corporate Governance in Indonesia) and the Public Listed Companies Association (AEI) (Certified Sustainability Reporting Assurer, 2011). In pursuing transparency, accountability, and maintaining environmental and social relationship, sustainability reporting are adopted by Indonesian public companies. In addition, an award called Indonesia Sustainability reporting (ISRA) will be given by the NCSR yearly to companies that initiate to improve the quality of sustainability reporting.

5.1 Law and Regulation of Sustainability Reporting of Kompas 100 Companies in Indonesia related to PSAK/IFRS and GRI 3.1

The current new challenges for the Indonesian public listed companies are to emphasize more in the adoption of sustainability reporting. The Government Regulations (Peraturan Pemerintah) No.47 (2012) regulates the following :

Article 2 : states that every company has a social and environmental responsibility.

Article 3 : states that

(1) The company shall be responsible in the social and environment sector in conducting its business activities in the parts, sectors and / or divisions that corresponded to natural resources under the laws.

(2) The obligations included both inside and outside the company.

Article 4 : states that

(1) Social and environmental responsibilities carried out by the Board of Directors by the company's annual work plan after approval by the Board of Commissioners or the RUPS in accordance with the articles of association of the company.

(2) The company's annual work plan shows the plan of activities and budget for the implementation of social and environmental responsibility.

Article 5 : states that

(1) The company that implemented its business activities in the sector, division and / or corresponded with natural resources in preparing and setting action plans and budgets referred to in Article 4 paragraph (2) should pay attention to decency and fairness.

(2) Realization of the budget for the implementation of social and environmental responsibility are carried out by the company counted as company expenses.

Article 6 : states that the implementation of social and environmental responsibility contained in the company's annual report and be accountable to the general meeting of shareholders (RUPS : Rapat Umum Pemegang Saham).

Article 8: states that

(2) Companies that have contributed in implementing social and environmental responsibility can be given an award by the relevant authorities.

5.2 FSA Regulation Regarding CSR

The rules and regulation regarding CSR reporting are stated in the Decree of The Supervisory Board Capital Market and Financial Institutions Number: KEP – 431/BL/2012 from the Ministry of Finance of The Republic of Indonesia are stated in Appendix 3.

6.1 The Balance Score Card

In the early 1990s, a new concept was developed as a new approach to performance measurement due to problems of short termism and pas orientation in Management accounting, The Balance Score Card (Kaplan and Norton, 1992). The concept of BCS focus in the change of belief that the efficient use of investment capital is no longer the sole determinant for competitive advantages, but other factors such as intellectual capital, knowledge creation or excellent customer orientations.

6.2 The Sustainability Balanced Score Card

As mention before the three performance dimensions of sustainability are environmental, social and economic performance of the firm. The Integration of the three pillars of Sustainability into general business management by a pragmatic approach offers three major advantages (Figge, 2001, Figge et all., 2001a, 2001b).

1. Sustainability management that is economically sound is not endangered by economic crisis because it is not only carried out as long as the company is successful. Usually, if firms find themselves under financial distress, those costs that are perceived as not contributing to the economic success are cut down first. Sustainability management that is economically sound, however, will also be practiced in times of crises and not only as long as firms are successful.

2. Firms that want to promote or reinforce their environmental and social management often orientate themselves towards competitors. Therefore, sustain- ability management that also contributes to economic objectives helps to disseminate the idea of sustainable development in business, as it serves as an appropriate role model for other businesses.
3. An integration of environmental and social aspects into general business management ensures that corporate sustainability management covers all three dimensions of sustainability. According to the three-pillar concept sustainability involves economic, ecological and social aspects. Usually, it is implicitly assumed that these aspects bear a complementary relation to each other. Thus, from the viewpoint of sustainability, it is most favorable if a business improves performance with regard to all the three dimensions of sustainability simultaneously

With the BSC assist the identification and the management of simultaneous improvements of environmental, social and financial business goals; SBSC fulfills the central requirement of sustainability concept for a permanent improvement of the business performance in economic, ecological and social terms. The suitability of the integration of all three sustainability dimensions results from possibility to consider soft factors, which cannot be monetarized. SBSC helps to implement the environmental and social objective within the core management business. The principle of SBSC shows how important the balance of the three dimensions is.