

## CHAPTER I

### INTRODUCTION

#### 1.1 Background

The company has an important role in economy. It's because company provide majority needs of society in goods and services. As the result, company becomes one of the major actors that affect the economy of a country. However, the goal of company in conducting business usually is only focus on maximizing the economic profit. When the company's profits continue to increase, on the other hand, the damage caused by the production process of goods increases, causing many negative impacts on the environment. This impact mostly comes from oil and gas companies that exploit natural resources as business products. Environmental damage that occurs can impact on social issues.

This problem can be overcome with an understanding of sustainable development process in the company. Sustainable development is the expansion of its broad range of economic and social developments that protect and improve the degree of environmental and social (Dunphy et. al, 2000). Sustainable development aims to meet the needs of the present generation without complicate the future generations to meet their needs consistently (Lie, 2009).

In order to achieve sustainable development, all companies need to pay attention to manage the sustainability of economic, social, and environmental

issues. Sustainable management has been created to define as the application of sustainable practices in the categories of economic, social and environmental by managing them in a way that will benefit future generations. In the end, by doing sustainability development practices, the future generation still can get benefit from the environment like today's generation.

The contents of sustainability development ideas provide a mandate for the company to conduct its corporate social responsibility. CSR practices in Indonesia have been regulated by Article 74 chapter 5 of Law No. 40/2007 on Social Responsibility and Environment stated that the company that conducting business activities in the field and/or relating to natural resources is required to implement the Social and Environmental Responsibility. The provisions concerning social and environmental responsibility also stipulated in Government Regulation No. 47/2012. According to Salmah (2014), when the company is able to carry out its responsibilities, the company will get good judgment not only from stakeholders, but also good assessment from public, and vice versa, when the company did not perform their social responsibilities it will impact the company's image to stakeholders and public, and it will ultimately affect the business sustainability of the company.

Sustainability Report presents as a tool to disclose the corporate social responsibility. This report focuses on three aspects, namely economic performance (economic), the environment (environmental) and social (social).

These three aspects known as the Triple Bottom Line, commonly referred as the principle of 3P (Planet, People and Profit). 3P principle is used to capture the whole set of values, issues and processes that companies must address in order to minimize any harm from their activities and to create economic, social, and environmental value (Sejati, 2014).

As well as financial reporting standards that have a fixed rule, namely GAAP and IFRS, the standard rules on the disclosure of sustainability reporting have been set in the Global Reporting Initiative (GRI) which has been adopted in Indonesia. GRI provides the world's most widely used standards on sustainability reporting and disclosure, enabling businesses, governments, civil society and citizens to make better decisions based on information that matters. In fact, 93% of the world's largest 250 corporations report on their sustainability performance (GRI, 2013). Global Reporting Initiative (GRI) located in Amsterdam, is a leading organization of sustainability. Since 1997, GRI already developed the sustainability disclosures standard. Until today, GRI still seeks to continue to develop better framework for sustainability reporting.

Latest guidelines that have been developed by GRI are GRI-G4. It is a fourth generation of sustainability reporting standard by Global reporting Initiatives. G4 Guidelines officially released on May 2013 (GRI 2013). GRI-G4 focus is different from the previous GRI standard. GRI-G4 is more concerned with the materiality of the relevant aspects and topics. Meanwhile, the previous GRI

concerned with complete disclosure in accordance with the standard. It makes this new standard better, because what's matter is not completeness anymore, but the importance of content reported. So the focus of sustainability reporting is shifting from quantity of object reported to quality of information stated.

Today, sustainability reporting increasingly becomes a trend and a need for companies to inform the performance of economic, social and environmental to all stakeholders (Chariri, 2009). However, there are not many researches on the application of the Sustainability Reporting based on the Global Reporting Initiative (GRI) has been done in Indonesia. Based on research conducted by the Global Reporting Initiative (2004) showed that during 2001-2003, the reporting on social and environmental information is only about 1% of all countries in Asia and Australia (Armin, 2011).

To give an appreciation of the company which has reported a sustainability report, issued either separately or included in the annual report, in 2005, NCSR along with five major organization in Indonesia: Ikatan Akuntansi Indonesia (IAI), the Forum for Corporate Governance in Indonesia (FCGI), the National Committee on Governance (NCG), Association of Indonesian Public Listed Companies (AEI) and the Indonesian Netherlands Association (INA) established Indonesia Sustainability Report Award (ISRA), now known as SRA. ISRA is the award given to companies that have been reporting the activities regarding to

environmental and social aspects other than the economic aspects in addition to maintaining sustainability.

This thesis is examined about the compliance of company's sustainability report disclosure with GRI-G4 standard. In this opportunity, the author is going to take the different area of industry, which is the oil and gas area. The company was chosen by author is PT. Pertamina (Persero) Tbk.

PT. Pertamina (Persero) Tbk. was chosen because PT. Pertamina (Persero) Tbk. is one of the leading companies in sustainability reporting. It can be proven by lots of achievement related with sustainability report and development received by the company. One of the recent achievement that received by company is 4 Gold Proper 2014 achieved by 4 business units, GCG Assessment 2014, Customer Service level higher than the expected target, which was 75 %, Maternal Health Clinics, and total tree saved in 2015.

This thesis will discuss on specific standard disclosure of company sustainability report. The discussion will be about generic and specific sector indicators of company sustainability report. So, the focus of this thesis is to analyze generic and specific sector indicators compliance for economic category of PT. Pertamina (Persero) Tbk. sustainability report with GRI-G4 standard.



## 1.2 Problem Definition

Based on the background above, the problems of the study is: Does 2014 Sustainability Report of PT. Pertamina (Persero) Tbk already comply with company indicators disclosure based on GRI G4 Sustainability Reporting Guidelines in disclosing their generic and specific sector indicators in economic category?

## 1.3 Research Objectives

In accordance with the above problem formulation, objectives to be achieved in this research is to know whether 2014 Sustainability Report of PT. Pertamina (Persero) Tbk already comply with Company Indicators disclosure based on GRI G4 Sustainability Reporting Guidelines in disclosing their generic and sector specific indicators in economic category.

## 1.4 Research Benefit

This research is expected to provide the following benefits:

### 1. For investor

Sustainability Report that is disclosed in accordance with GRI-G4 Standards can provide additional information for investors and potential investors in making investment decision in order to avoid misleading in decision making.



2. For company

This research can help the company to increase the reporting quality in accordance with the standards.

3. For academic purpose

This research can give additional scientific references related to CSR and sustainability reporting which can be developed by further studies.

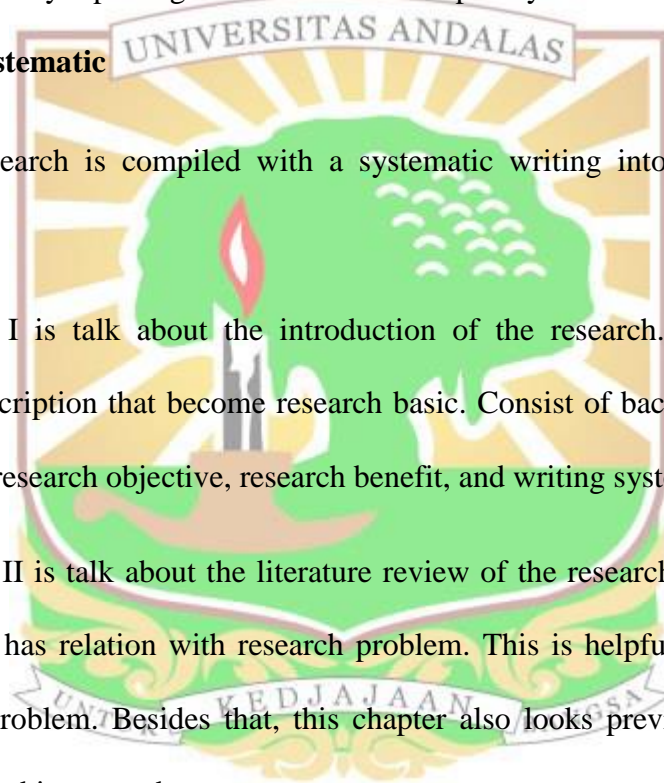
**1.5 Writing Systematic**

This research is compiled with a systematic writing into five chapters as follows:

Chapter I is talk about the introduction of the research. It discuss about general description that become research basic. Consist of background, problem definition, research objective, research benefit, and writing systematic.

Chapter II is talk about the literature review of the research. It discuss about theory that has relation with research problem. This is helpful as think base to solve the problem. Besides that, this chapter also looks previous research that related with this research.

Chapter III is talk about the research methodology in conducting the research. It provides overview of plan in doing the research. Along with theories from literature review, this chapter will encompass the research. This chapter includes



type of research, research limitation, types and sources of data, and analysis method.

Chapter IV is talk about the result and discussion of the result. It contains data processing result based on research methodology. The last chapter is chapter V. It is talk about the conclusion and suggestion of the research. It contain conclusion about research result. It also contain suggestions for the next research.

