CHAPTER 1

INTRODUCTION

1.1.Research Background

The current situation of economic development, it is necessary for the company to be able to work more effectively and efficiently in gaining the profit. In the other hand, Uncertain world conditions such as the global warming, increasing poverty, deteriorating public health and social demands to the company happened. Nowadays, the company is expected not only concerned with the interests of management and owners of capital (investors and creditors), but also employees, consumers and society.

In recent decades, organizations increasingly find that their profit and loss statements are influenced by parameters that do not feature on the balance sheet. These external factors are 'sustainability issues' that could be economic, environmental or social in nature. With the line between public responsibility and private initiative blurring, the popular opinion is putting pressure on companies to become more sustainable (Elkington, 1994). Sustainable development implies development that meets the needs of the present generation without compromising the ability of future generations to meet their own needs. As a result of global upsurge of interest in sustainable development, sustainability reporting system has emerged (Godha and Jain, 2015).

Sustainability reporting is a process that assists organizations in understanding the links between sustainability related issues and the organization's plans and strategy, goal setting, performance measurement and managing change towards a sustainable global economy – one that combines profitability with social responsibility and environmental care (GRI, 2013). Sustainability report has become an interesting issue because in some cases it can determine both the business decisions of investors and corporate management. According to Atmajaya (2015), In developing companies especially in Indonesia, the company would need capital from investors. For investors who will invest, the sustainability report will form the belief that firms run their business processes in accordance with social ethics and the environment. With the good record of corporate social responsibility and the environment, it made investors think that the company has good corporate governance and also concern with their social and environmental issues both in internal and external companies. For management, it is seen to be supporting the company's strategies.

According to Prayosho and Hananto (2013), the content of the information in sustainability reporting is expected to give a positive signal and could increase the company's value in the eyes of investors. An information can be determined as valuable for investor if the information is inviting reactions to conduct transactions in the capital market. According Hartono (2008), publication of an event or activity is often considered to contain information if the market reacts right after the publication is received by the market. The market reaction is different, it can be positive or negative. Market reaction is indicated by the change in the price of the securities concerned that may affect the abnormal return.

. In accordance of Mulyadi, 2008 (cited in Dewi and Badera,2016), audits conducted to collect and evaluate the evidence on which the report issued by the company, so that the auditor obtain a solid basis for our opinion about the veracity of the reports that have been made by the company. Fitria (2013) expained that an auditor provides audit services to the client's financial statements to provide assurance to users of financial statements that the financial statements have been prepared in accordance with financial accounting standards so that financial statements are reliable in decision making.

In this case, if annual report needs audit opinion as quality standard of reporting, sustainability report use external assurance to ensure their quality for investors where this quality standar is also mentioned in Global Reporting Initiative. This is necessary to to ensure that information submitted by the company has to be reliable information. According to GRI (2013), eventhough measurement and reporting practices for financial reporting are well established, financial statements that have been reviewed by external auditors are seen as more valuable and useful than unaudited financial statements. Likewise, independently of the process behind the preparation of sustainability disclosures, those that have been externally assured are seen as more robust and more reliable. Here, GRI uses the term ‘external assurance’ as an overarching term to cover a wide range of approaches to external assessment of sustainability disclosure processes and reporting.

A similar upward trend, it is shown by the percentage of these reports that included third-party assurance is more promising. It is proposed that this is driven by stakeholders’ increasing demand for credibility in reporting and the assumed association between the third-party assurance and the credibility (O’Dwyer and Owen 2005 in Manurung and Basuki 2010). However, in previous years not all companies aware and include the external assurance for their sustainability reports and in some cases it can be unreliable because this report is still voluntary for some companies. Therefore, in spite of its voluntary nature, the demand for this particular audit service is rising (Power, 1991)

Based on the background above and the previous research, the author is interested to examine more about the effect of sustainability report quality on market reaction. This thesis is examined about how market react to the quality of sustainability report through the external assurance. In this opportunity, this reasearh is going to take all companies listed in Indonesia Stock Exchange which publish their sustainability report in 2013 until 2015. Nowadays, not all companies aware about the quality of the sustainability report they published or put the assurance on them. No assurance could mean it's unreliable and effect the trust of the investors. Therefore, the author wants to see whether there is the effect of sustainability report quality on market reaction.

1.2. Problem Statement

Referring to the previous research above, it can be concluded that the relationship between sustainability report quality and market reaction is still being an enigma of the literature. Therefore, the researcher comes up with the problem of this research is:

What is the relationship between sustainability report quality and market reaction?

1.3. Research Objectives

According to the problem statements stated before, the objective of this research is to obtain the empirical evidence about the effect of sustainablity report quaity on market reaction for all companies listed in Indonesia Stock Exchange which published their sustainability report for year 2013-2015.

1.4. Research Benefit

The result of this study is expected provide benefits as follows:

1. Give the new insight and knowledge about corporation management especially in sustainability report and market reaction
2. Provide additional information for investors and potential investors in making investment decision in order to avoid misleading in decision making.
3. Give input to the company about the content of report in accordance with the quality
4. giving the new reference and knowledge in developing theory, perspectives and views related to sustainability reporting which can be developed by further studies

1.5.Writing Systematic

The writing systematic of the research comprises 5 parts. The first chapter is Introduction described background, problem statement, objectives of research, benefit of research and writing systematic. The second chapter is about literature review, included every theory related to the research.

The third chapter is research methods. It is about research design, population and sample, type and source of data, variable definition and measurement, and data analysis methods. Chapter 4 is about result analysis and discussion. It contains of all the data interpretation of the research and the discussion how to do research that has already done. Chapter 5 is conclusion, suggestion, and implication of the research.