

CHAPTER 1

INTRODUCTION

1.1. Research Background

In the last decade, the practice of the corporate sustainability disclosure has increased dramatically. By publishing sustainability reports companies disclose their performance on social, environmental and economic performance to regulators, rating agencies, shareholders, investors, consumers, NGOs and other interested stakeholders. Reporting is a platform and opportunity for companies to show their values, actions and strategies towards the different environmental, social and economic challenges that are accelerated by the company's presence or impact of the company's operation. For stakeholders such reports provide comprehensive qualitative and quantitative data that informs them about the company's overall performance in different environmental, social and economic aspects and helps them to make informed decision (SustainAbility, 2011).

Companies are increasingly becoming powerful actors in addressing the complex sustainability issues with which the world is confronted. Recently, the United Nations (UN) has recognized that "socially responsible and accountable private business activity, investment, and innovation are major drivers of productivity, employment and economic growth" (UN, 2017). Thus, companies can play a key role for achieving Sustainable Development Goals (SDGs) that UN have adopted as part of their new global "Agenda 2030" (UN, 2015). To this aim, companies are asked to continuously demonstrate their true commitment to sustainability, that is, their ability to meet the needs of current stakeholders without compromising the ability of future generations to meet their own needs (WCED, 1987).

In order to reduce the information asymmetry between company and stakeholders, every year more and more companies are voluntarily reporting sustainability information and increasingly they are using reporting frameworks, such as the Global Reporting Initiative (GRI) G4 guidelines (Gonzalez et al., 2017; Jain and Islam, 2016; Schadewitz and Niskala, 2010). GRI G4 provides companies with guidelines on how define sustainability report content, stressing the concept of materiality analysis. The purpose of materiality analysis is to determine what sustainability information are most significant to the companies and to their stakeholders (GRI, 2013b). Reporting on material aspects makes reports more relevant, more reliable and more transparent, enabling companies to better inform markets and society on their sustainability commitment (Hess, 2007).

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 GRI G4 guidelines (GRI, 2013a; 2013b), materiality analysis should be conceived as participatory process, involving interactive dialogue with

stakeholders both internal and external to the organization. Material issues should be determined and prioritized in accordance with stakeholder needs and internal analysis regarding impacts on strategies, processes and competitive advantage. Therefore, a systematic approach is required in order to effectively address materiality analysis dealing with subjectivity of judgments, ensuring completeness in covering all material aspects and engaging with stakeholders (Calabrese et al., 2016; Zhou, 2011).

The motivation for the topic steams from the little research done in the field of materiality assessment in sustainability reporting. Although many of the sustainability reporting guidelines strongly emphasis the need for materiality assessment, many companies still face challenges to identify relevant issues for sustainability reporting and prioritize those identified issues in accordance with the stakeholder views and needs (Hsua, Leeb & Chaoc, 2013). Reporting and focusing on the issues, that matter most is the heart of problem with today's sustainability reporting (Mohin, 2017). Companies already publishing sustainability reports are struggling to focus their reporting on the impacts that matter most and the companies that have not yet started reporting are discouraged from doing so due to lack of information on the issues that they may need to report on. The current CEO of GRI, Mohin (2017) believes that when sustainability reporting is focused on impactful and relevant issues, it will create data that can help companies to contribute to sustainable development and increase their profitability.

This study extends prior studies by examining the consistency of the identified material aspects in the sustainability report. This study is built up based on the principles of defining report quality especially comparabilty principle which requires the organization to present the reported information in a manner that enables stakeholders to analyze changes in the organization's performance over time, and that could support analysis relative to other organizations (GRI, 2013). Furthermore, a consistency of reported information shall provide stakeholders to be able to compare information on the organization's current economic, environmental, and social

performance against the organization's past performance, its objectives, and, to the degree possible, against the performance of other organizations. It also allows internal and external parties to benchmark performance and assess progress as part of rating activities, investment decisions, advocacy programs, and other activities.

The sustainability report of selected cement companies in Indonesia will be the object of this study. Cement companies are often positioned as environmentally sensitive industry in which they have more pressure to disclose environmental information than those in the less sensitive industries (i.e. banking and consumer products) because activities of companies in environmentally sensitive industries tend to have a greater impact on the environment (Mardani, 2015)

1.2. Problem Statement

Based on the background above, the problems of this study consider the following research questions:

1. To what extent cement companies reported their material aspects consistently?
2. Do the companies provide an explanation for the inconsistent aspects in their sustainability report?

1.3. Research Objectives

According to the problem statement above, the objective of this research are :

- To find out the extent to which cement companies report their material aspect consistently.
- To find out if the companies provide an explanation of the aspects that are not reported consistently.



1.4. Research Benefit

This research is expected to provide benefits as follows:

1. To know the what are those identified material aspects in sustainability report of cement companies in Indonesia.
2. To know if those identified material aspects are consistently reported in sustainability report.
3. Adding scholarly reference especially related to CSR and sustainability reporting
4. Provide additional information for all stakeholders in making decisions related to sustainability reporting by related companies.

1.5. Writing Systematic

The writing systematic of the research comprises 5 parts. Chapter I is the introduction, the opening chapter of this study, in this chapter will explain the background of the problem, problem statements, objectives and benefits of the research, as well as the systematic writing. Chapter II is Literature Review, this chapter consists of literature review and any relevance prior research as reference for the research. Chapter III is Metode Research, the chapter will discuss on population and sample, sample selection methods, type of data, data collection method as well as data analysis proses. Chapter IV is the analysis of the research results, this chapter will explains the result of analysis. Consistency of identified material aspect for each companies will be examine and try figure out the reason of the inconsistency. Chapter V is a cover, this chapter contains a summary and analysis of data, limitations of research, and suggestions of authors in this study



