

## CHAPTER I

### INTRODUCTION

#### 1.1 Background

The existence of financial statement that consists of balance sheet, income statement, cash flow statement, statement of changes in equity as well as disclosure, where it is solely trotted out whole information as to obtain the maximum profit from the assets, now no longer feels complete. The presence of mind regarding the importance of the environment has pioneered the emergence of the disclosure of sustainability report. In the beginning, the escalation of environmental problems that occur along with the growth of the economic activities is turning on the expectancy of the people to get hold of a kind of the accountability for the exploration and exploitation of natural resources around the living area. One of the simple and closest cases that happened and would not be forgotten easily was the attack of thick smog of Pekanbaru City in 2015. The health service of Province of Riau noted that 78,993 people of residents had been stricken with the diseases due to the smoke exposure. The same cases happened year by year because of certain of people that are getting advantages from it. The other cases such as Lapindo Mud that occurred in Porong, Sidoarjo, pollution of Buyat Bay, Minahasa, Freeport in Papua have opened the eyes of business leaders and the general public for the importance of social and environmental responsibility. At this moment, it can be said that the corporations are required to

attest the people as a social aspect in order to reach the legitimacy of doing their operational activities.

The issuance of sustainability reports has increased, especially in Indonesia. Although this report is still voluntary in Indonesia, many companies that have been listed on the Indonesia Stock Exchange (BEI) have published sustainability reports. The high enthusiasm from the publication of the sustainability report shows that the report is important in terms of how the company integrates environmental, social, and good governance aspects. Sustainability reporting provides key stakeholders with an understanding of the sustainability impacts on key business activities of companies, and the strategic actions taken by the companies in response to these impacts. Thus, sustainability reporting reflects companies' accountability in conducting their business affairs in a responsible manner in order to enable the stakeholders to evaluate the implementation thereof. Most of the sustainability report published in Indonesia use the disclosure standard produced by the Global Reporting Initiative (GRI). In 2015, GRI established the Global Sustainability Standard Board (GRI GSSB) which was specifically tasked with handling the development of standard sustainability reports. Towards the fourth quarter of 2016, GRI GSSB began introducing the GRI Standards which were then launched in Indonesia in 2017. This Standard is effective for reports or other materials published on or after 1 July 2018. Earlier adoption is encouraged.

As an acknowledgment and appreciation to companies that have made sustainability report, National Center for Sustainability Reporting (NCSR) holds an Indonesia Sustainability Reporting Award (ISRA) every year, since 2005. The aim of this awards is also to motivate and accelerate sustainability reporting of companies by rewarding outstanding attempts to communicate corporate performance in three aspects (economics, social and environment). As such, the awards do not comment on the performance itself, instead, it primarily focuses on transparency and reporting compliance to sustainability reporting guideline developed by the Global Reporting Initiative. In 2014, ISRA changed its name to Sustainability Reporting Award (SRA). It changed its name for the second time in 2018 into Asia Sustainability Reporting Rating (ASRR). NCSR in collaboration with the Institute of Certified Sustainability Practitioners (ICSP) began the system from the Award to Rating in ASRR 2018. The ranking in ASRR consists of 4 groups; Platinum (highest), Gold, Silver, and Bronze (lowest).

For having a platinum rating, there are some criteria needed to fulfill by the company in their sustainability reports such as adopting GRI Standards, assured by a third party, disclosure on energy, disclosure on GHG Emission, and SDG Compass. Based on the criteria, this study focus on the first criteria which is adopting GRI Standards. By applying GRI Standards in the sustainability report is expected to report not only on impacts it causes, but also on impacts it contributes to, and impacts that are directly linked to its activities, products or services through a business relationship. An organization that wants to claim its sustainability report has been prepared in accordance with the GRI Standards

(either Core or Comprehensive option) is required to comply with all requirements such as all material topics identified. If a material topic is not covered by an existing topic-specific GRI Standard, the organization is still required to report on its management approach and is recommended to use appropriate disclosures from other sources to report on its impacts.

As stated before that ASRR do not comment on the performance itself, instead, it primarily focuses on transparency and reporting compliance to sustainability reporting guideline developed by the Global Reporting Initiative. In 2017, the reporting compliance of sustainability reporting standards is based on GRI Standards. In this study, it would be discussed about the reporting compliance of platinum rating companies by determining whether the disclosures of economic and environmental are already complete and in accordance with GRI Standards. It focuses on platinum rating companies to prove whether the highest rating companies already achieved the reporting compliance of economic and environmental disclosures of the sustainability report or not. The reason why platinum rating companies selected is they would be the role model for another companies in the lower rating or even the companies that have not produced their own sustainability report. The companies in the Platinum Rating are as follows: PT ANTAM Tbk, PT Perusahaan Gas Negara Tbk, PT Pupuk Indonesia (Persero), PT Pupuk Kalimantan Timur, PT Vale Indonesia Tbk, and PT Wijaya Karya (Persero) Tbk.

## **1.2 Problem Formulation**

Based on the background described above, the formulation of the problem in this research is: how are economic and environmental disclosures on sustainability report of Indonesian Companies that get a platinum rating in ASRR 2018 based on GRI Standards.

## **1.3 Research Objective**

The objective of this research is figuring out about how economic and environmental disclosures on the sustainability report of Indonesian Companies that get a platinum rating in ASRR 2018 based on GRI Standards.

## **1.4 Research Benefit**

The outcomes of this research are as follows:

1. Provide additional information for investors and potential investors in making an investment decision in order to avoid misleading in decision making.
2. Give input to the company about the disclosure of economic and environmental in accordance with GRI Standards.
3. Give additional scientific references related to sustainability reporting which can be developed by further studies.

## **1.5 Research Scope**

This research focuses on Indonesian companies that get a platinum rating in Asia Sustainability Report Rating (ASRR) 2018.



## 1.6 Writing Systematic

This research consists of five chapters, arranged and will be explained as follows:

### Chapter I:

This chapter consists of the introduction of this research. Research background, problem formulation, research objectives, research benefit, research scope, and the system of the writing of this research will be explained in this chapter.

### Chapter II:

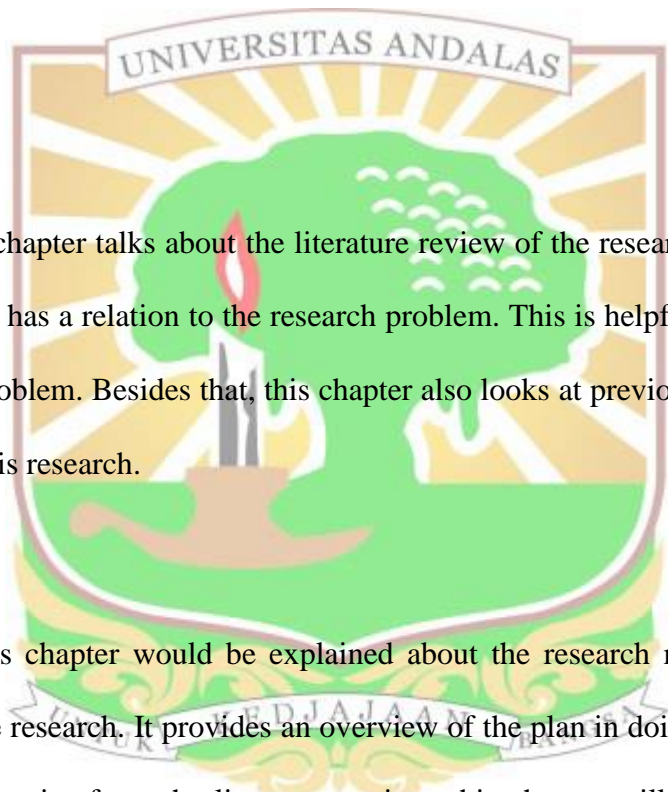
This chapter talks about the literature review of the research. It discusses the theory that has a relation to the research problem. This is helpful as think base to solve the problem. Besides that, this chapter also looks at previous research that related with this research.

### Chapter III:

In this chapter would be explained about the research methodology in conducting the research. It provides an overview of the plan in doing the research. Along with theories from the literature review, this chapter will encompass the research. This chapter includes the type of research, types, and sources of data, and analysis method.

### Chapter IV:

This chapter explains about the result and the discussion of the research that has been conducted.



## Chapter V:

This chapter describes the conclusion, research limitation, suggestions addressed to interested parties and for those who may need this research for further research.

