CHAPTER I

INTRODUCTION

1.1 Background

A company is formed with the initial goal of optimizing profits will be received and being responsible for stakeholders. After the times, there is a shift in views regarding companies that focus on profits and environmental aspects (Setiani & Sinaga, 2021). This is in line with the concept put forward by John Elkington in 1997, stating that the triple bottom line or 3P (People, profit, and Planet) aims to improve the welfare of society and employees (people), optimizing profits and maintaining environmental conditions (planet) in addressing issues of sustainability. Therefore, companies do not only focus on profit but also people and the planet (Ming-Lang Tseng et al., 2020). The companies use the sustainability report as an accountability to stakeholders. This report also shows the company's sustainability performance. The company uses a sustainability report to disclose the company's sustainability, containing economic, environmental, and social performance (Farhana & Adelina, 2019).

Sustainability reports currently become a trending topic of discussion globally. In the last decade, many companies have prepared sustainability reports. In Indonesia, financial institutions, publicly listed companies from 2019, and listed companies from 2020 are obligated to publish a sustainability report. However, due to the COVID-19 pandemic, the implementation of this regulation was postponed until 2021. By 2022, more than 80% of companies in Indonesia have paid attention by publishing their sustainability report (PwC, 2023).

Publishing sustainability reports also have a positive signal. It can increase the company's value by triggering investor interest in participating in transactions in the capital market (Pujiningsih, 2020). This is driven by increased investor interest in companies that support sustainability. According to Bowman and Haire (1976), disclosure of sustainability reports should be supported by the company's financial performance, including profitability. Profitability indicates management's ability to generate relevant profits when designing social programs and environmental conservation efforts included in sustainability reports (Mujiani et al., 2021). This is part of the company's responsibility to improve the surrounding socio-economic conditions and promote environmental preservation. Therefore, the more social information submitted, the higher the company's profitability level.

Globally, various frameworks and standards are used for sustainability reporting. Some of them are the Global Reporting Initiative (GRI), the International Organization for Standardization (ISO), Principles for Responsible Investment (PRI), the Sustainability Accounting Standards Board (SASB), and the United Nations Global Compact (UNGC). Of the various existing approaches, GRI is the most frequently used framework because it is considered the most comprehensive in measuring and reporting companies' social, environmental, and economic impacts (BPK, 2022). GRI, initiated by an international independent group in 1997, was designed as a global standard for sustainability reporting (Dara, 2022). It plays a vital role in helping companies and governments around the world to disclose their impact on critical sustainability issues, such as human rights, corporate governance, climate change, and social welfare. Through a comprehensive approach, GRI enables companies to transparently report on their performance, not only from a financial perspective but also on their impact on society and the environment.

Sustainability reports are essential for companies to demonstrate their commitment to sustainable practices. In these sustainability reports, companies are expected to emphasize openness and transparency in conveying information related to their activities' social and environmental impacts. Along with the times, the approach in preparing sustainability reports has shifted from focusing on the quantity of data to the quality of information presented. This means that reports no longer follow existing guidelines but must genuinely reflect the actual condition and performance of the company. Thus, each sustainability report should have its uniqueness tailored to the company's current conditions. So, companies must carefully select the information to be included in their reports, ensuring that all indicators are relevant to the company's strategy and objectives for the year. This more selective and focused approach is expected to provide a more transparent and helpful picture of a company's sustainability performance while encouraging more positive action for the environment and society. Therefore, GRI has become a guideline for many companies when preparing their sustainability reports. GRI helps ensure that the reports produced not only fulfil stakeholder expectations but also reflect sustainability performance comprehensively and consistently.

GRI defines sustainability reporting as measuring, disclosing, and holding organizations accountable for their performance in achieving sustainable goals (Katoppo & Nustini, 2022). The primary purpose of these reports is to convey relevant information to internal and external stakeholders, including management, employees, investors, governments, and communities. The reports typically cover the social, environmental, and economic impacts generated by companies, showing how their activities support or affect sustainability in the long term.

However, in practice, many companies tend to emphasize the positive side in their reports to maintain their reputation and image in the eyes of the public. Information on the negative impact or poor performance should be dealt with or addressed in a limited manner. This has the potential to mislead stakeholders as it needs to reflect the overall condition of the organization. It is recommended that sustainability reports be prepared more transparent and balanced, disclosing both positive and negative aspects to provide a more accurate picture of the company's performance. Also, companies can build more vital trust among stakeholders and demonstrate a real commitment to sustainability principles.

In recent years, sustainability reporting in Indonesia has experienced significant development. In 2006, several companies in the mining and manufacturing sectors began to publish sustainability reports independently, encouraged by Law No. 40/2007 (Meinawati & Wirakusuma, 2023). However, in that year, sustainability reporting was still voluntary, and only five reports were published (Adisresti, 2024). This development continued and was strengthened in 2017 when the Financial Services Authority (OJK) issued Regulation No. 51/POJK.03/2017 (POJK 51) regarding implementing Sustainable Finance for Financial Services Institutions, Issuers, and Public Companies (Sarwono & Meiden, 2024). This regulation requires companies to publish sustainability reports to improve communication and accountability and promote sustainable financing practices in Indonesia.

In 2021, OJK clarified this requirement through Circular Letter No. 16/SEOJK.04/2021 (SEOJK 16), which provides additional guidance for the non-financial sector in preparing sustainability reports (Adisresti, 2024). The Sustainability Reporting Framework under POJK 51 and SEOJK 16 is adopted from several pre-existing international standards. Key trends include increasing convergence among sustainability standard-setters, greater regulatory focus on climate-related financial disclosures, and increased sustainability reporting in private markets. While the reporting volume has increased, future attention will be focused on improving the quality of reports. The quality of sustainability reporting is assessed through the accuracy of report preparation following standardized guidelines.

Although the trend of sustainability-related disclosures is increasing and has become mandatory, many business activities still cause significant environmental damage. Unsustainable often results in deforestation, water pollution, and drastic soil degradation. These projects can increase the risk of natural disasters, such as floods and landslides, which harm the environment and jeopardize the safety of surrounding communities. The property and real estate sector is very close to the damage caused by unsustainable development. Therefore, property and real estate companies must manage their operations more sustainably and responsibly. One of the steps that can be taken is to transparently convey information to stakeholders regarding the company's sustainability performance and impacts contained in the sustainability report.

Research conducted by Fadilla et al. (2021) shows the effect of company size, company type, and profitability on a company's sustainability report. In this study, researchers chose profitability as one of the independent variables because it can be measured by calculating Return on Asset (ROA). The results showed that only profitability positively influences the quality of sustainability reports. This indicates that companies with high profitability tend to encourage managers to disclose more detailed information, including information related to social responsibility, such as sustainability reports. In contrast, the size and type of company do not affect the quality of the sustainability report. In addition, Meinawati and Wirakusuma (2023) conducted research on profitability, stakeholder pressure, audit committees, and the quality of sustainability reports also produced exciting findings. This study concluded that profitability, stakeholder pressure, and audit committees positively influence the quality of sustainability reports. In this study, researchers selected two of the three independent variables, namely profitability and stakeholder pressure.

In this study, researchers chose profitability and stakeholder pressure as independent variables. This decision is based on previous research that uses the same variables on profitability variables based on research by (Fadilla et al., 2021; Meinawati & Wirakusuma, 2023), because the variables in the study have measurement methods that follow the data available for this study. Profitability is measured using Return on Assets (ROA), which is a ratio that compares net income with the company's total assets, which can reflect how effectively the company utilizes its assets to generate profits. Meanwhile, stakeholder pressure variables are shareholder pressure, employee pressure, and creditor pressure (Meinawati & Wirakusuma, 2023; Syahirah et al., 2023). Measurements have also been adjusted to the data available in this study to ensure more accurate and relevant results. Researchers set these two variables as important independent variables in this study based on these considerations.

The property and real estate sector is the subject of this research, and that makes it different from the previous research. This sector was chosen because it has specific characteristics directly related to environmental and social issues, such as the impact of development on ecosystems and local communities. In addition, this sector is often involved in sustainable development practices that require more attention in sustainability reporting. This study's method of measuring the quality of sustainability reports also differs from previous studies. Another difference is the measurement of the quality of sustainability report, in which previous research used content analysis techniques with a scoring approach, giving a score between 0 and 4 (Fadilla et al., 2021) This study uses a measurement method similar to Meinawati & Wirakusuma's (2023) research and is updated with the latest standards as of 2019. This measurement uses a sustainability report index by comparing the total number of indicator items disclosed with the total number of measured indicators. This approach provides a more comprehensive way to evaluate the quality of sustainability reports.

1.2 Problem Formulation

Based on the background of the problem above, the following problems can be formulated:

1. Does profitability affect the quality of sustainability reports in property and real estate sector companies listed on the Indonesia Stock Exchange for the period 2021-2023?

2. Does shareholder pressure as a measure of stakeholder pressure affect the quality of sustainability reports on property and real estate sector companies listed on the Indonesia Stock Exchange for the period 2021-2023?
3. Does employee pressure as a measure of stakeholder pressure affect the quality of sustainability reports on property and real estate sector companies listed on the Indonesia Stock Exchange for the 2021-2023 period?
4. Does creditor pressure as a measure of stakeholder pressure affect the quality of sustainability reports on property and real estate sector companies listed on the Indonesia Stock Exchange for the 2021-2023 period?

1.3 Research objectives

The purpose of this study is to prove empirically:

1. The effect of profitability on the quality of sustainability reports on property and real estate sector companies listed on the Indonesia Stock Exchange for the period 2021-2023.
2. The effect of shareholder pressure as a measure of stakeholder pressure on the quality of sustainability reports on property and real estate sector companies listed on the Indonesia Stock Exchange for the period 2021-2023.
3. The effect of employee pressure as a measure of stakeholder pressure on the quality of sustainability reports on property and real estate sector companies listed on the Indonesia Stock Exchange for the period 2021-2023.

4. The effect of creditor pressure as a measure of stakeholder pressure on the quality of sustainability reports on property and real estate sector companies listed on the Indonesia Stock Exchange for the period 2021-2023.

1.4 Research Benefit

The results of this study are expected to provide significant benefits for various parties. For authors and readers, this research can enrich insights into the quality of sustainability reports in the property and real estate sector, especially regarding the influence of profitability and pressure from stakeholders in the 2021-2023 period. For academics, the results of this study can be a reference for further studies and research, especially in the property and real estate sector listed on the Indonesia Stock Exchange. This research contributes to the accounting literature by adding references related to factors that affect the quality of sustainability reports. For users of sustainability reports, this research is expected to be a consideration in decision-making because a better understanding of the quality of the report will increase stakeholder confidence in the company.

1.5 Writing Systematic

The writing structure in this study is organized systematically and divided into five main chapters. The first chapter, entitled Introduction, outlines the background, problem formulation, objectives, and benefits of the study, followed by a systematic writing. The second chapter includes a literature review that includes the theoretical basis, review of previous research, hypothesis development, and conceptual framework as a reference. In the third chapter, the research methodology is explained in detail, including population and samples, types and sources of data, research variables, and analysis methods used. Furthermore, the fourth chapter presents the research results, complete with data analysis and discussion that compares the results with the criteria to test the hypothesis. Finally, the fifth chapter contains conclusions that summarise the research results, implications, limitations, and suggestions for future research.