

# Characteristics of Sustainability Report Disclosure in Indonesia

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**Abstract**—This study investigates the readiness of companies in Indonesia in conducting sustainability reporting. Variables used in this study are economic performance disclosure, environmental performance and social performance as well as variable of intellectual capital. Economic performance disclosure, environmental performance and social performance are the components of sustainability reporting. Meanwhile, intellectual capital measures the ability of company to manage its human resources. The sample in this study consists of 30 Indonesian public companies of ISRA holders in 2014-2017. The result showed that economic performance and social performance disclosure are high. Meanwhile, based on correlation analysis, economic and social performances are strongly related with the ability of company in managing its human resources.

**Keywords**—sustainability reporting; disclosure; intellectual capital

## I. INTRODUCTION

Business continuity of company is an important matter for an organization to survive in the future. To compete globally, company must focus on Triple Bottom Line [1]. Sustainability Report is a report focusing on the balance between people-planet-profit (triple bottom line), not only containing financial performance report, but also non-financial performance [2]. Triple bottom line disclosure in sustainability reporting can increase the transparency of economic, social, and environmental effects from activities of company, so the company is able to know how big is the risk and threat faced and to evaluate the opportunity in the future [3].

Right now, social and environment crises are occurring that can harm life in the world. They are mostly caused by business practices that are only oriented to economic growth and profit, without considering the social and environmental factors. Accounting plays role in those cases because in accounting process, it focuses only on financial transactions as well as using financial accounting perspective in accounting process toward social and environmental transactions [4].

Many organizations that switch from traditional way in reporting only financial aspect, to the more modern way, which is reporting all aspects, both financial and non-financial to stakeholders [5]. Publication of Sustainability Report in Indonesia now is still voluntary, but the development of sustainability report publication in Indonesia is getting more

developing. It was initiated by the agency of National Center for Sustainability Reporting (NCSR) in the event of Indonesia Sustainability Reporting Award (ISRA). Indonesian government has started the reporting on social and environment by issuing UU no. 40 year 2007. However, until now, there has been no standard reporting toward the social and environmental report. The presence of sustainability reporting in 2020 has pushed company to start reporting it [4].

Sustainability report has many functions among others is for company which is as a measurement whether company has achieved the work target in the concept of Triple Bottom Line [3]. For investor, sustainability report works in controlling company's performance and as the means in investing its fund in the company. Meanwhile, for other interested parties, sustainability report becomes the benchmark in evaluating the willingness of company in conducting sustainable environmental development.

Very competitive competition now has pushed management to manage resources owned well in order to maintain the continuity of its business. Resources (asset) of company can be grouped into two, which are tangible asset and intangible asset. Along with the development of technology and industrial revolution, the management of intangible asset is important in sustainability of a company [6]. One approach used in intangible asset measurement is intellectual capital. Intellectual, according to Bontis consists of 3 components, which are human capital, structure capital, and relational capital [7]. The most important asset of the company is human capital because human resources manage all assets, so they can produce profit and added value. Although intellectual capital is important matter to achieve competitive superiority, may companies have not understood the concept and the value of intellectual capital especially on how to manage intellectual capital in order to increase competitive superiority so that it can increase company's performance.

This study identifies the extent of readiness of companies in Indonesia in delivering sustainability report, and to investigate the correlation between sustainability report disclosure of company that are ISRA holders and the ability of company in managing resources. This study is important cause most of companies in Indonesia have not applied the concept of intellectual capital. They still tend to use conventional base in building their business, and many companies have not paid

attention to human capital, structure capital, and relational capital, whereas those three are important in the development of intellectual capital [8].

The result showed that economic performance and social performance disclosure are high. Meanwhile, economic and social performances are strongly related with the ability of company in managing its human resources.

## II. METHOD

### A. Sustainable Reporting and Its Benefit

Sustainability Report or also known as Triple Bottom Line Reporting is a reporting instrument that is aimed to user consists of economic, social, and environmental reports. Elkington stated that to maintain business sustainability of company, the company must consider 3P (Profit, Planet, People) in its business [2]. Company as a business entity in conducting its activities, besides oriented to profit, must consider the welfare of people such as incentive giving to female employees that is compatible to male employees. Moreover, company also must consider the sustainability of natural resources in conducting its activities, such as the savings of water, electricity, and raw materials as well as not damaging environment (planet). Sustainability report is the commitment of company to conduct economic, social, and environmental development sustainability. Meanwhile, according to Global Reporting Initiative G4 in 2013, sustainability report is a report of both organization and company transparently about economic, environmental, and social effects that are caused by daily activities.

Global Reporting Initiative standards create a similar language for organization and stakeholders, so economic, environmental, and social effects of company or organization can be communicated and understood. These standards are designed to increase global comparability and information quality about those effect, so they enable greater transparency and accountability of organization. Available information through sustainability reporting enables internal and external stakeholders to form opinion and to make decision about contribution of organization to the purpose of sustainable development [9].

According to World Business Council for Sustainable Development (WBCSD), the benefits obtained from sustainability report disclosure among others are: giving information to stakeholders transparently; helping to build reputation; giving information of risk management; facilitating good governance; being reflection on how company manages its risks; as stimulation of leadership thinking and performance supported by competition spirit; information sources in managing environmental, economic, and social effects; information sources that can increase company's value to build long term trust of stakeholders.

### B. Intellectual Capital

There are some definitions of Intellectual Capital, most of them describe it as a factor of intangible asset of organization. Brooking defined Intellectual Capital as a combination of intangible assets that helps company in running its function

[10]. Bontis defined intellectual capital as hidden value of individual, company, institution, community, and region that become potential sources in present and in the future to create welfare [7]. Clarke et al. argued that intellectual capital is intellectual resources that have been "formalized, captured, and leveraged" to create assets of higher value [11]. Tan et al. also defined intellectual capital as intangible assets including special technology, customer information, brand name, reputation, and culture of other companies that really contribute to competitive power of company [12]. Intellectual capital is knowledge, information, and experience used to create welfare [13]. Intellectual capital is a process of technology management to count the company prospects in the future [14]. Intellectual capital is information and knowledge applied in company to create value [15].

According to some researchers, intellectual capital consists of three main components [7], which are:

- Human capital, is defined as set of value, behavior, qualification, and skill owned by employee to produce added value for company. Human capital will be increasing when company is able to use knowledge owned by its employee [16].
- Structure Capital, is the ability of organization or company in fulfilling routine process of company and its structure to result optimal intellectual performance as well as business performance entirely.
- Relational Capital, is the result of organization ability to positively interact with environment including supplier, customer, competitor, shareholders, stakeholders and society to increase the welfare by increasing human capital and structure capital.

Intellectual capital can be measured by using financial and non-financial evaluations. Non-financial measurement often used is with Balanced Scorecard approach developed by Kaplan and Norton [17]. BSC is used as the measurement of intellectual capital by monitoring the progress of capability and the growth of intangible asset acquisition [14]. Meanwhile, for financial measurement, the approach is Economic Value Added (EVA), MVA, VAIC, and Tobin's Q can be used. According to Berg, ratio of Tobin's Q is used to measure intellectual capital because high Q value and market to book ratio reflect high investment value in technology and human capital [14].

The theory that can explain the sustainability report and Intellectual Capital is stakeholder theory. Stakeholders are all parties, both internal and external that can affect or can be affected, both directly and indirectly by company. Stakeholder theory describes the relation between stakeholder as resources provider with the company that accommodates the needs of its stakeholders [18]. Stakeholder theory has an objective to help corporate to increase values from the effects of its activities, and to minimize the loss for stakeholders. Thus, company must give responsibility and accountability on the operation. It is because the behavior and decision done by company have impact toward the welfare of the stakeholders.

Company as an entity is a part of its environment system so that it must maintain the legitimacy of stakeholder by involving it in operation policy and as one of considerations of decision making. Therefore, synergy will occur between company and stakeholder in order to maintain stability and sustainability of company's business [19].

Some reasons that drive company need to pay attention to the interest of stakeholders are: 1) Environment issue involves interests of many groups in community that can distracts their quality of life; 2) In globalization era, it has promoted products that are traded must be environment friendly; 3) Investors in putting their capital tend to choose company that has and develops environment policy and program; 4) NGO and environmentalists are more vocal in criticizing company that less cares for environment [20].

The disclosure about intellectual capital is still information that is voluntary in its disclosure. Intellectual capital disclosure is expected able to increase the trust of stakeholder and to minimize loss that might emerge from stakeholders. According to Meek and Gray, for companies that disclose intellectual capital, they will give high value added for the performance of company in overall, so it is useful for the interest of stakeholders [21].

### C. Sample and Analysis

Population in this study is all companies listed in Indonesian Stock Exchange that issued Sustainability Report and followed ISRA in 2014-2017. Sampling technique used in this study is purposive sampling, with the sample criteria as the following: (1) A company received nomination, the reason is that an ISRA holder company reflects its disclosure that has referred to the standards of GRI. (2) Available data are complete.

Data in this study are secondary data, which are data of social and environmental disclosures as well as data of financial reports obtained from company's annual reports downloaded from [www.idx.co.id](http://www.idx.co.id), sustainability report each company and data of companies that received ISRA nomination from [www.ncsr.go.id](http://www.ncsr.go.id).

Variables studied are Performance of economic, social, and environmental; and Intellectual capital. The measurement of this variable is by giving disclosure index. If the company discloses it, it is given score 1. If it does not disclose it, it is given score 0. Then, scoring is done on the disclosure toward all items of disclosure in GRI 4. Environmental Performance Disclosure. Economic performance disclosure is based on the guidelines of GRI 4 consisting of 9 items. Environment performance disclosure consisting of 38 items, and social performance disclosure consisting of 44 items.

Formulation of Sustainability Reporting Disclosure Index (SRDI) is:  $(N/K)$ , N is the number of items disclosed by company; K is The number of expected items. The measurement of intellectual capital according to Berg, can be done by calculating Q value in Tobin's Q [14]. High Q level and market to book ratio reflect high investment value in technology and human capital. Tobin's Q is calculated by comparing market price of company toward asset value of

company. Correlation analysis is used to investigate the correlation between economic, environmental, and social performance disclosures that are the indicators of company's sustainability and the ability of company in managing human resources.

### III. RESULT AND DISCUSSION

This study will identify the extent of readiness of companies in Indonesia in delivering sustainability report, and to investigate the correlation between sustainability reporting disclosure of ISRA holder company and human resources management measured with Intellectual Capital.

The indicators of sustainability report in this study according to GRI G4, which are: (1) Economic Indicators, include measurements on Economic performance; Market existence; Indirect economic effects; Procurement practice. (2) Environmental Indicators, include measurements on: Materials; Water; Energy; Biodiversity; Emission; Effluent and waste; Product and services; compliance; Transportation; Supplier assessment on environment; Environmental issue complaint mechanism. (3) Social Indicators, include measurements on: Employment and working comfort practice; Human Rights; Society; Responsibility on product.

Meanwhile, for Intellectual Capital measurement as benchmarks of company's ability in managing its human resources, it is measured with Tobin's Q. Table 1 show the descriptive data of all variables.

TABLE I. DESCRIPTIVE STATISTICS

Variable	N	Min	Max	Mean	Deviation Standard	Variance
Tobin's Q	30	0.32	9.22	1.90	2.44	1.3
Economic performance	30	0.00	0.90	0.43	0.24	0.60
Environmental performance	30	0.00	0.91	0.24	0.22	0.90
Social performance	30	0.00	0.90	0.31	0.18	0.60

Based on the descriptive statistics, the highest disclosure is economic performance disclosure which is 0.43 in average, and the lowest disclosure is environmental disclosure that less than 25% in average. Table 2 shows the correlation analysis result between disclosure report and the intellectual capital.

TABLE II. CORRELATION ANALYSIS RESULT

Disclosure Indicator	Correlation	P value
Economic performance	0.401	0.032 <sup>a</sup>
Environmental performance	-0.337	0.068 <sup>b</sup>
Social performance	0.308	0.045 <sup>a</sup>

<sup>a</sup>. significant at Alpha 5%  
<sup>b</sup>. significant at Alpha 10%

Based on the correlation analysis, overall, economic performance and social performance strongly correlate toward the ability of company in managing its human resources. The course of its correlation is positive. Therefore, if economic and social performances increase, the company is considered successful in managing its human resources. Different from



environment performance, it has weak and negative correlation. It means, if management's ability in managing company is low, the environmental performance will increase.

There are economic performance dimensions that correlate strongly with the ability of company in managing its human resources which are *market existence, indirect economic effect, and procurement practice*. Human capital is suspected to be able to compete with physical and financial capital investment [13], even outperforms the physical and financial capital [11]. Human capital is the lever to create innovation to compete competitively [22]. With the service improvement, it can be said that investors give higher value to company that has bigger intellectual capital. Each business entity development will be followed by infrastructure development that surrounds it. The existence of company is expected able to continuously bring benefit for community, especially local community around the operation area of the company. Most of companies in choosing partners prioritize the work relation with local suppliers who have needed competency, but still consider applied regulations, such as quality standard, material availability. Moreover, the cost spent is cheaper when using local product and able to give contribution of local economic growth and its effect will reduce unemployment and poverty.

Dimensions of environmental performance that relate strongly to the ability of company in managing its human resources are energy and emission. As a business entity that wants to reach sustainability, company realizes that energy is the aspect that must get attention, by conducting energy conservation and the use of renewable energy alternative. Company can also press operational costs.

Dimensions of social performance that relate strongly to the ability of company in managing its human resources are *Human Rights, community, and responsibility on products*. Company in conducting its operation always involves many parties, both suppliers, employees and customers, so the company must place human rights as a universal value that must be respected, recognized, and empowered by all stakeholders. This commitment is stated in the policy related to human resources development and cooperation agreement as well as all reporting mechanisms if violation occurs. Company that is able to maintain commitment will be able to maintain the continuity with involved parties in the operation process both directly and indirectly. Social practice of company can be done by involving community in reducing garbage count and using garbage to have economic value. Through Green and Clean Program, company includes community to manage garbage more comprehensively. Company has the responsibility to community on the benefit, price, and quality of products. Customers want a product that make them feel participating, such as a coaching program of supplier partner and assistance, so the quality from upstream to downstream can be controlled. Moreover, the suppliers later can be customers of the products that are produced by the related company. Thus, it can be seen that there is harmonious relation that is sustainable.

#### IV. CONCLUSION

Sustainability reporting appears as the consequence form of paradigm change in company's report. Sustainability report focuses on the statement of information related to economic performance, social performance, and environmental performance of company. The guidelines in making sustainability report is GRI G4 (GRI of fourth generation) set by GRI (Global Reporting Initiative). Sustainability reporting in Indonesia is still limited to voluntary disclosure. Thus, there are still few of companies that disclose sustainability reports.

Information reported in sustainability report reflect the ability of company in managing its human resources. The ability of company in managing its human resources in the capital intellectual of company. This study shows the presence of strong and positive correlation between economic performance and social performance with ability of company in managing its human resources. Meanwhile, environmental performance relates weakly with the ability of management in managing company human resources.

This study only uses ISRA holder companies, with the reason that companies of ISRA holders have conducted sustainability report in accordance with the guidelines. Thus, if they are used as the sample, they do not produce bias conclusion. The result of this study indicates that environmental performance in overall relates weakly to the management of human resources. Thus, the future research is suggested to investigates environmental regulation factors that have not been adopted by company, so they can be suggestion for regulatory agency.

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