

Maintaining Business Sustainability: Challenges and Opportunities of Sustainability Reporting in Indonesia

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Abstract

This study aims to discuss the importance of sustainability reporting for companies, the condition of sustainability reporting in Indonesia, and the challenges and opportunities faced in implementing it. The method used in this study is library research that refers to the results of previous studies. Based on the findings from previous studies, Indonesia has not yet implemented mandatory regulations for the presentation of sustainability reports. The absence of strict regulations related to sustainability reporting has resulted in only a few public companies in Indonesia committing to supporting sustainability reporting. The challenges in implementing sustainability reporting in Indonesia include a lack of awareness, a lack of government policy, and a lack of resources. The opportunities in implementing sustainability reporting in Indonesia include improving the company's image, attracting investors, and meeting consumer demands.

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1. INTRODUCTION

Accounting has undergone significant development over the past few decades, particularly in terms of information disclosure (Thijssens et al., 2016). At the same time, concern for sustainability has become highly relevant to society (Dienes et al., 2016). Based on the results of a KPMG survey on corporate sustainability reporting, in 1993, 12% of the top 100 companies in 52 countries were involved in sustainability reporting, and by 2020, this had increased to 80%. In 1997, 35% of the 250 largest companies in the world based on revenue listed in the Fortune 500 were involved in sustainability reporting, and by 2020 this had increased to 96% (Threlfall et al., 2020). However, Indonesia was not included in the survey conducted by KPMG on sustainability reports in 2020 (KPMG Impact, 2020). This is related to the low level of non-financial reporting (CSR, sustainability reports, and integrated reports).

Sustainability reporting is becoming increasingly important for companies in an era that is increasingly aware of environmental and social impacts. Companies today are not only measured by financial profits, but also by the positive or negative impacts they have on the environment and society. Therefore, sustainability reporting has become an important factor in company operations. Essentially, sustainability reporting is still voluntary in most countries. Despite this, sustainability reporting is growing as a voluntary activity that is widely embraced by many companies in the global business community (Thijssens et al., 2016). Based on research conducted by Sebrina et al. (2023), sustainability reporting in Indonesia is still voluntary.

Research conducted by the Global Reporting Initiative (GRI) in 2019 shows that 73% of Fortune Global 250 companies have published sustainability reports. This indicates that more and more companies are realizing the importance of sustainability reporting and striving to improve their environmental and social performance. According to research conducted by Stubbs & Higgins (2020), sustainability reporting can benefit companies in terms of increased operational efficiency, risk management, reputation, and attractiveness to investors. In addition, research conducted by Atan et al. (2021) also shows that sustainability reporting can influence investment decisions and product purchasing decisions for consumers.

In Indonesia, sustainability reporting has become increasingly popular in recent years. Regulations on sustainability reporting refer to Financial Services Authority Regulation (POJK) No. 51/POJK. 03/2017, which requires Financial Services Institutions (LJK), Issuers, and Public Companies to prepare and publish sustainability reports. In 2019, Indonesia issued Minister of Finance Regulation No. 51/PMK.010/2019 concerning Guidelines for the Implementation of Good Corporate Governance and Sustainability Reporting for Companies. This regulation encourages public companies in Indonesia to conduct sustainability reporting and implement good corporate governance practices. However, despite the push for sustainability reporting in Indonesia, there are still many challenges in implementing it. One of the main challenges is the lack of understanding and awareness of sustainability reporting among companies and regulators. Some companies still do not consider sustainability reporting to be important and do not have sufficient resources to do so. This article will further discuss the importance of sustainability reporting for companies, the state of sustainability reporting in Indonesia, and the challenges and opportunities faced in implementing.

2. LITERATURE REVIEW

In 1987, the Brundtland Commission released a report prepared by the United Nations (UN) World Commission on Environment and Development to propose a long-term environmental strategy to achieve sustainability in 2000 and beyond (Brundtland Commission, 1987). In Indonesia, sustainability reporting was introduced in the 2000s with the release of the Global Reporting Initiative (GRI) guidelines by the UN. However, there are still many challenges in implementing sustainability reporting in Indonesia.

The GRI framework for sustainability reporting is the most widely used sustainability reporting framework (Isaksson and Steimle, 2009). GRI claims more than 10,000 GRI framework reporters in 100 countries (GRI, 2021). More than two-thirds of the top 100 companies in 52 countries are involved in sustainability reporting. More than two-thirds of the 250 largest companies in the world based on revenue listed in the Fortune 500 have used the GRI framework. The GRI framework has sought guidance from the Global Sustainability Standards Board, which has set GRI standards for sustainability reporting (Threlfall et al., 2020).

The most commonly used theories to explain non-financial reporting are legitimacy theory and stakeholder theory. Legitimacy theory assumes that actions are acceptable if they respect certain socially constructed systems of norms, values, beliefs, and definitions (Suchman, 1995). Legitimacy theory uses the main assumption that maintaining a successful business organization requires managers to ensure that their organizations appear to operate in accordance with society's expectations and are therefore associated with the status of "legitimacy".

In legitimacy theory, organizations are viewed as part of a broader social system and are not considered to have inherent rights to resources (Deegan, 2019). Companies that behave differently or conduct operations that conflict with public opinion will lose their

legitimacy. Therefore, companies can adopt non-financial reporting to build a legitimate image. This idea of legitimacy is also reflected in the main reasons for the increase in non-financial reporting publications (Badia & Bracci, 2020).

Another theory related to sustainability reporting is stakeholder theory. This theory considers that companies should be managed in the interests of all stakeholders, not just shareholders. Consequently, companies combine the different perspectives and expectations of each stakeholder with an interest in the company's activities. Non-financial reporting can be used to align stakeholder expectations, as it goes beyond financial aspects to consider environmental and social factors of company performance. This non-financial reporting helps manage the relationship between companies and stakeholders, who often have different and conflicting expectations (Brammer & Pavelin, 2004).

3. RESEARCH METHODS

This study uses a qualitative approach with a library research method. This technique refers to the results of previous studies that have discussed sustainability reporting. Library research is a study conducted by analyzing the content of previous literature that discusses similar topics (Sawarjuwono & Kadir, 2003). The studies in this research include books, national and international journal articles, and other relevant documents. The database used in this study consists of articles in reputable journals taken from platforms such as Scopus, Clarivate Web of Science, Sinta, and Google Scholar. To find more research sources in this field, the references from related articles were examined (Chen & Komal, 2018).

4. DISCUSSION

The Importance of Sustainability Reporting for Companies

Sustainability Reporting is reporting on the social, environmental, and economic impacts generated by a company in its operations. This reporting can benefit companies in various aspects, such as increased operational efficiency, risk management, reputation, and attractiveness to investors. Perrini et al. (2011) argue that companies must utilize their limited resources by choosing between allocating resources to improve efficiency, returning them to owners, or transferring them to social programs. They argue that addressing social issues is the role of the government and non-profit organizations, not corporations.

Research conducted by Stubbs & Higgins (2020) shows that sustainability reporting can help companies improve operational efficiency through energy and resource savings, as well as reduce operating costs. In addition, sustainability reporting can help companies manage environmental and social risks that may impact business operations. This can reduce the likelihood of companies being subject to fines or lawsuits, as well as improve the security and resilience of the company's business.

In addition to operational benefits, sustainability reporting can also provide reputational benefits for companies. Transparent and accurate sustainability reporting can enhance a company's image in the eyes of consumers, investors, and the general public. This can increase the company's appeal to investors and customers who care about social and environmental issues.

Principles of Sustainability Reporting Quality

The GRI (Global Reporting Initiative) framework is a widely used reporting standard for sustainability reporting that is comprehensive and detailed (Hahn & Kühnen, 2013). The GRI standards identify several principles in defining the quality of non-financial reporting: clarity, accuracy, timeliness, comparability, and reliability (Badia & Bracci, 2020; Farhana & Adelina, 2019).

Clarity emphasizes that the information in the report must be presented clearly, easily understood, and easily accessible to all stakeholders. Reports need to present information that can be understood and used by various parties, both through print media and other channels. Stakeholders must also be able to find the information they need quickly. Information should be organized in a way that is appropriate for stakeholders who have a general understanding of the organization and its activities. The use of integrated graphics or tables can improve the readability and accessibility of information. The level of detail presented also affects the clarity of the report, whether it is appropriate to the needs of stakeholders or excessive. By presenting information at the appropriate level and providing tools such as tables of contents, maps, or links, stakeholders can more easily find the information they need.

Accuracy emphasizes that information must be precise and sufficiently detailed so that stakeholders can assess the organization's performance. Responses to DMA and economic, environmental, and social indicators can be presented in the form of qualitative descriptions or more in-depth quantitative data. The level of accuracy is influenced by the type of information and the needs of its users. For qualitative information, accuracy is assessed based on the clarity, completeness, and balance of its presentation within the limits of relevant aspects. Meanwhile, the accuracy of quantitative information depends on the methods used in data collection, compilation, and analysis. In the context of sustainability reporting, accuracy is an important issue. GRI (2016) emphasizes that the accuracy of reports is determined by the nature of the information and its usefulness to stakeholders. Factual accuracy includes the accuracy of data and the margin of error. Therefore, organizations must clearly explain the measurement techniques and calculation basis used, and ensure that the data can be replicated with comparable results. The margin of error should also not be so large that it distorts the reader's assessment of the company's sustainability performance. In addition, GRI emphasizes that qualitative statements in reports must be validatable through other available information and evidence.

Timeliness means that reports must be compiled regularly and made available in a timely manner so that stakeholders can use them in their decision-making. In research, this aspect is referred to as "timeliness and stakeholder engagement" to highlight the important role of stakeholders. The usefulness of information is greatly influenced by when it is provided, so reports need to be published regularly and as close as possible to the events they report on. Although a continuous flow of information may be necessary for certain purposes, organizations must still consistently provide integrated reports on economic, environmental, and social performance at specified times.

Comparability requires that the information in the report enables stakeholders to see the organization's performance over time and compare it with other organizations. As an important principle in sustainability reporting, organizations must select, collect, and report data consistently so that changes in performance can be analyzed between periods and relative to other parties. Comparability is a crucial aspect for report users to assess organizational performance (Langer, 2006). However, the difficulty of comparing sustainability reports often makes stakeholders, especially investors, reluctant to use this information (Friedman & Miles, 2001). To overcome this, GRI 2006 emphasizes that information must be presented in such a way as to enable performance analysis over time and comparison with other organizations (Global Reporting Initiative, 2016).

In the context of SRI, comparative analysis is essential for evaluating a company's progress and comparing its performance with related activities: for example, rankings in making investment decisions (Dragomir, 2012; Langer, 2006; Peck & Sinding, 2003). To do this, users of GRI reports must compare the information disclosed about a company's social, environmental, and economic performance with information about the same

company's past performance. They must also be able to compare their performance with that of other companies. Therefore, quality reports must enable the measurement of an organization's performance over time and compare its performance with that of other organizations in the same sector.

Reliability refers to the extent to which the information and processes used to compile the report are collected, recorded, processed, analyzed, and presented in a trustworthy manner so that their quality and materiality can be assessed (Global Reporting Initiative, 2016). Stakeholders must have confidence that the contents of the report can be verified and that the Reporting Principles have been applied appropriately. Therefore, all information or data in the report must be supported by internal controls or documentation that can be reviewed by parties other than the report preparers.

The State of Sustainability Reporting in Indonesia

In Indonesia, sustainability reporting practices have shown significant development in recent years. The government is encouraging the strengthening of these practices through Minister of Finance Regulation No. 51/PMK.010/2019, which contains guidelines on good corporate governance and sustainability reporting for companies. This regulation is expected to increase the commitment of public companies to prepare sustainability reports and implement more transparent governance principles. However, the implementation of sustainability reporting in Indonesia still faces various challenges. One of the main obstacles is the low level of understanding and awareness, both on the part of companies and regulators, regarding the importance of sustainability reporting. Many companies do not yet consider this reporting to be a strategic necessity, and some others experience resource constraints in the preparation process.

In addition to awareness issues, the quality of sustainability reports produced by companies in Indonesia is also considered suboptimal. Atan et al. (2021) found that the content of Indonesian companies' sustainability reports is not yet fully aligned with international standards, which has the potential to reduce investor confidence. In line with these findings, research by Adhariani & du Toit (2020) found that the reports have a low level of readability. This means that the information provided in the disclosures is very difficult to decipher and understand by the targeted users. Considering the similar readability levels of reports across industries, the researchers observed a pattern of isomorphism in the way companies apply the same format and language construction in disclosing their sustainability information. They may be perpetuating the myth that complex language attracts investors or impresses others.

Another finding from Sebrina et al. (2023) reveals that the quality of sustainability reports of public companies in Indonesia is still inadequate. As a developing country, Indonesia does not yet have specific regulations governing independent sustainability reporting. The lack of commitment to sustainability practices is reflected in the small number of companies that disclose sustainability reports, as well as Indonesia's absence from KPMG's 2020 sustainability reporting survey. The low level of non-financial reporting, such as CSR, sustainability reports, and integrated reports, further confirms this condition.

In the context of the banking sector, Amidjaya & Widagdo (2020) found that the level of sustainability reporting disclosure among banks listed in Indonesia is still low. Meanwhile, Buallay et al. (2020) showed that ESG improves bank accounting and market-based performance in developed countries, supporting the theory of value creation. In another study, Buallay (2020) showed that ESG positively affects operational, financial, and market performance in the manufacturing sector. However, on the other hand, ESG has a negative impact on operational, financial, and market performance in the banking sector.

Challenges and Opportunities of Implementing Sustainability Reporting in Indonesia

One of the main challenges in implementing sustainability reporting in Indonesia is the lack of understanding and awareness of the importance of sustainability reporting among companies and regulators. This can be attributed to various factors, such as the lack of education and training on sustainability reporting, as well as the lack of pressure from the public and regulators to do so. In addition, there are still shortcomings in sustainability reporting by companies in Indonesia. Atan et al. (2021) found that Indonesian companies' reports are not in line with international standards, which could potentially reduce investor confidence in the sustainability information presented.

Research by Sebrina et al. (2023) also reveals that Indonesia still does not have specific regulations requiring the preparation of independent sustainability reports. The absence of strict regulations has resulted in low adoption rates for sustainability reporting, with only a small number of public companies showing a strong commitment to preparing such reports. This condition is also reflected in Indonesia's absence from KPMG's 2020 global sustainability reporting survey, even though several Asia Pacific countries show high reporting rates, such as Malaysia (99%), Thailand (84%), and Singapore (81%). Unlike previous studies that focused on factors determining the quality of sustainability reports, Sebrina et al. (2023) emphasize the evaluation of empirical conditions through the number and quality of reports published by public companies in Indonesia.

The lack of resources and support from company management can also be a challenge in implementing Sustainability Reporting in Indonesia. The sustainability reporting process can require considerable time, money, and human resources to be done properly. If company management does not understand the importance of sustainability reporting, they may not provide sufficient support for sustainability reporting.

Although there are challenges in implementing sustainability reporting in Indonesia, there are also opportunities that can be utilized to increase its success. First, the government's encouragement to implement sustainability reporting can be an opportunity for companies in Indonesia. The Indonesian government has issued Minister of Finance Regulation No. 51/PMK.010/2019 concerning Guidelines for the Implementation of Good Corporate Governance and Sustainability Reporting for Companies, which encourages public companies in Indonesia to conduct sustainability reporting.

In addition, growing awareness and pressure from the public and investors on sustainability issues have opened up significant opportunities for companies in Indonesia to further strengthen their sustainability reporting practices. The global trend emphasizing the importance of environmental, social, and governance (ESG) aspects has made investors, particularly institutional investors, more selective in choosing companies with a clear commitment to sustainability. In Indonesia, this situation encourages companies to be more transparent in disclosing the social and environmental risks and impacts of their operational activities. With increasing public concern about climate change, industrial waste, and corporate social responsibility, sustainability reporting has become an important means of demonstrating accountability while maintaining stakeholder trust.

Another opportunity for improving sustainability reporting in Indonesia is capacity building through training and education. Many companies are beginning to realize that sustainability reports are not just a regulatory requirement, but also a strategic tool for enhancing reputation and competitiveness. Therefore, improving understanding of international reporting standards, such as GRI or IFRS Sustainability, is essential. With adequate training support, whether organized by the OJK, professional associations, or academic institutions, companies can develop competencies in measurement, data management, and the preparation of high-quality reports. Better knowledge will result in

more accurate, relevant, and accountable reports, which will ultimately increase investor confidence in the company's sustainability performance.

5. CONCLUSIONS

This study emphasizes the importance of sustainability reporting as a tool for companies to demonstrate their commitment to sustainable practices, transparency, and social and environmental responsibility. In Indonesia, the current situation shows that there are no mandatory national regulations requiring the submission of sustainability reports, so only a small number of public companies actively implement them. This is influenced by key challenges such as a lack of corporate awareness of the long-term benefits, the absence of firm government policies, and limited human, financial, and technological resources, especially among small and medium-sized companies. Nevertheless, the opportunities are significant, including improved corporate image, attractiveness to investors oriented towards responsible investment, and meeting the demands of consumers who are increasingly concerned about social and environmental issues. This study recommends that the Indonesian government immediately formulate comprehensive regulations to encourage widespread adoption of sustainability reporting, while companies are encouraged to increase internal awareness and resource allocation. Thus, the implementation of sustainability reporting can contribute to sustainable development and long-term competitive advantage in Indonesia. Further research is needed to measure the practical impact of these potential regulations on company performance.

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