

The Strategy for Implementing Sustainability Accounting and Reporting in Business Entities

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ABSTRACT

Besides considering economic aspects, the influence of the enterprise's activities on environmental and societal aspects is also important. Nevertheless, almost all accounting systems are still based on the financial view of the business. However, the level of environmental and social efficiency is only rarely considered. Meanwhile, in terms of resources, large companies have funds to invest in and support sustainability, but that does not mean that other businesses such as small and medium entities can not implement sustainability. Small business entities are critical to achieving sustainable outcomes for economies, the environment and society. They can find significant advantages from establishing (or enhancing) processes, recording and reporting. This paper aims to explain the essence of implementing sustainability in Small and Medium Business Entities. We are also creating a strategy for implementing the sustainability reporting. The author uses a qualitative descriptive study and literature research. This research was conducted at Small and Medium Business Entities in Subang, West Java, Indonesia. The methods of collecting data are semi-structured interviews, observation, and document analysis. The author also uses the basic concepts and secondary data to describe and to support the results of this research method. The results of the study show that business entities have carried out activities related to sustainability accounting but have not recorded and reported financially on their operations. So the authors propose the stages of a strategy for implementing sustainability accounting and reporting.

Keywords: Sustainability reporting; Strategy; Small and Medium Business Entities

1. INTRODUCTION

Based on data from Badan Pusat Statistik for 2022, Indonesian economy will grow by 3.69% (c-to-c) throughout 2021. This growth achievement was higher than growth in 2020 which contracted by 2.07 percent as a result of the Covid-19 pandemic which hit the whole world, including Indonesia. Based on data submitted by the World Bank in July 2021, the development status of several countries based on Gross National Income per capita (US dollar), Indonesia has dropped back to 3,870 per capita, lagging behind several countries in Southeast Asia such as Thailand which occupies 7,050 per capita, Malaysia 10,580 per capita, Brunei Darussalam 32,230 per capita and Singapore 54,920 per capita. This is of course due to various underlying factors such as Gross Domestic Product (GDP) which is also influenced by Gross Regional Product (GRP).

According to the Department of Economic and Social Affairs of United State, Gross regional product (GRP) is conceptually equivalent to gross domestic product (GDP); the latter measures newly created value through production by resident production units (or residents in short) in the domestic economy, be it a state, province or a district. Subang as one of the districts in West Java also contributes to GRP through its regional income. Based on BPS data for West Java Province, Subang Regional Income in 2020 is 39.5 billion Rupiah, is in 16th place out of 27 regencies and cities in West Java Province. Based on the study of the Subang Regency Development Acceleration Team (TP2D), Subang Regency regional income until 2022 is still relatively low and high dependence on Central/Provincial Allocation Funds.

A number of business entities in Subang are mostly engaged in the agricultural, forestry and marine or fisheries sectors. Subang Regency Regional Income actually can still be increased by maximizing business entities. However, this business entity still has weaknesses, especially in terms of limited access to capital and a low investment climate. So that business entities still need support, especially in terms of capital. In the midst of low Central/Provincial Allocation Funds, business entities must be able to be independent and seek support from external parties outside the government, such as investors. This is also supported by several opportunities such as increasing national and global connectivity, namely, the Cipali Toll Road, Patimban International Port, and Kertajati Airport.

The readiness of business entities for legality, business clarity, and financial reports are mandatory things that must be fulfilled by business entities to attract investors. Besides considering economic aspects, the influence of the enterprise's activities on environmental and societal aspects is also important. Nevertheless, almost all accounting systems are still based on the financial view of the business. However, the level of environmental and social efficiency is only rarely considered. Meanwhile, in terms of resources, large companies have funds to invest in and support sustainability, but that does not mean that other businesses such as small and medium entities can not implement sustainability. Small business entities are critical to achieving sustainable outcomes for economies, the environment and society. They can find significant advantages from establishing (or enhancing) processes, recording and reporting.

In Subang, the government has made various efforts in readiness of business entities for legality, business clarity, and financial reports, this is done as part of the government's efforts to deal with limited access to capital and a low investment climate. But then the researchers saw a gap that had not been noticed so far and is no less important in attracting investors, namely by implementing a sustainability report. This is based on the fact that many of the raw materials used by business entities in Subang come from nature. So with the existence of Sustainability Reporting a business entity can reflect that in addition to profits, business entities also pay attention to humans and plants in their business processes. In addition to fulfilling sustainability reporting, indirectly this will be an added value for business entities in getting investors. The environmental impact of business entity operations can be a concern and consideration for investors and potential investors because disclosure of sustainability reports will influence customer perceptions and will make customers buy company products that pay attention to sustainability. Therefore, by implementing a sustainable report, apart from being an effort for business entities on sustainability issues, it can also be an effort to contribute to increasing the regional income of Subang. Furthermore, implementing sustainability reporting has also become a necessity considering the importance of immediately addressing sustainability issues. According to the International Energy Agency (IEA), carbon dioxide (CO₂) emissions from energy combustion and global industrial activities reach 36.8 gigatons in 2022. Therefore, implementing sustainability report is a form of responsibility for this. This effort is also made to meet the needs of the present without compromising the ability of future generations to meet their needs.

With the background mentioned above, the focus of this paper lies in small and medium business entities in Subang. The purpose of this paper is to identify how these companies address sustainability issues through implementing sustainability reporting. The second part provides a brief overview of sustainability reporting. The design and object of this research are presented and discussed in the third section. The fourth section describes the results and elaboration of the strategy for implementing sustainability reporting in businesses entities.

Then in section five is written the conclusion of the paper, a brief summary and views for future research and practice.

2. LITERATURE REVIEW

Strategy in Business

Jones and Hill (2010) stated in their book, there are strategy formulation and strategy implementation. Strategy formulation is the task of selecting strategies, whereas strategy implementation is the task of putting strategies into action, which includes designing, delivering and supporting products; improving the efficiency and effectiveness of operation; and designing a company's organizational structure, control, systems, and culture. Jones and Hill (2010) also mention about A Model of The Strategic Planning process that have five main steps, they are (1) Select the corporate mission and major corporate goals; (2) Analyze the organization's external competitive environment to identify opportunities and threats; (3) Analyze the organization's internal operating environment to identify the organization strength and weaknesses; (4) Select strategies that build on the organization strengths and correct its weaknesses in order to take advantages of external opportunities and counter external threats; (5) Implement the strategies

Sustainability Business & Sustainability Reporting

Bocket et al (2014) stated that a sustainable business model is needed that accommodates the triple bottom line approach (People, Profit, Planet) and considers all stakeholders, including the community environment. Along with implementing the sustainability business model in the company, it is hoped that the company will also think about "planetary sustainability" not only for the future sustainability of the company that comes from the accumulation of benefits from innovation and the image created as a result of this implementation.

Furthermore, according to Adhariani (2021), sustainability reporting usually refers to the publication of reports for external parties, either in the form of printed reports or electronic versions on the internet. The process of preparing wish reports involves management and employees in determining wish objectives for the company, gathering relevant data, and creating and communicating wish information. Thus, desirability accounting and reporting can be applied by further developing financial, cost and management accounting to accommodate environmental and social issues. This method is considered more practical and does not require radical changes compared to developing accounting that is completely new and different from conventional principles.

Reporting alternatives can vary from monthly, quarterly and yearly reporting as well as ongoing reporting such as through a website that can be updated with the latest information, and performance reporting for a longer period such as the product life cycle.

The use of various indicators to measure sustainability performance can be taken from existing reporting standards (GRI, Global Reporting Initiative). One example of multidimensional performance indicators has been applied in management accounting with the development of the Balanced Scorecard; The same can also be applied to assessing environmental performance and the value of assets, liabilities and costs related to the environment using generally accepted principles. Apart from that, it is also important to report narratives regarding the social and environmental impacts of company activities. Nugraha (2020) in Paper.id conveyed the results of an interview that sustainability reports do not only belong to large companies or those that are listed on the Indonesian stock exchange, but to everyone. Because, this has been recorded in OJK regulation no. 51, page 21, in 2017.

Sustainability Accounting

Adhariani (2021) Sustainability problems have many aspects and are multidisciplinary because they require knowledge and understanding from various scientific fields. In the field of accounting, apart from measuring, it is also necessary to report to interested parties regarding the company's sustainability efforts within a certain period of time. Sustainability reporting is sustainability information presented in certain media, such as annual reports, stand-alone sustainability reports, company websites, or other news media. Sustainability reporting is a tool for dialogue or communication between companies and the public regarding sustainability issues. In addition, GRI is an independent international standards organization that helps organizations and governments communicate environmental, social and economic impacts. Therefore, “Sustainability reporting helps organizations set goals, measure performance, and manage change to make their operations more sustainable. Sustainability reports provide disclosures about an organization's impact – both positive and negative – on the environment, society and the economy.

3. METHODOLOGY

This study uses a qualitative descriptive research method. In studying problems, research does not prove or reject hypotheses made prior to research, but rather manages data and analyzes a non-numeric problem (Sugiyono, 2016). This type of research satisfies the description of the data in the form of sentences that have deep meaning obtained from the information and observed behavior. The data from this study are in the form of facts found by researchers in the field (Sugiyono, 2016). In this study the researcher tries to understand the subject from his own frame of mind, so that the most important thing is the experiences, opinions, feelings and knowledge of the participants. Therefore, all perspectives are valuable for research.

The research method according to Sugiyono (2012) is basically a scientific way to obtain data with specific purposes and uses. This study used several data collection techniques, including field studies or direct observation. Bungin (2011) states that observations are made directly on the objects being observed, in the sense that these observations do not use transparent media. This means that researchers see and observe directly what happens to the object of research. Field observations were made by visiting several small and medium business entities used in the research located in Subang City, North Subang and South Subang. In addition, data was also obtained through interviews with management of small and medium business entities. The profiles of small and medium business entities that are used as locus in the research are as follows:

Table 1: Profile of Business Entities

Business Entities	Adress	Main Activity
Gunung Luhur Berkah	Cisalak, South Subang	Agriculture, Production, Trade
Mina Fajar Sidik	Blanakan, North Subang	Place Fish Auction , SPDN/diesel fuel, Ice Factory, Trade
Rizky Garden Farm	Purwdadi, North Subang	Horticulture, Trade
Saung Lingga	Dangeur, Subang	Production, Trade
Ellu Kaos	Sukamelang, Subang	Clothes Production
Warung De Zahid	Soklat, Subang	Food Production
Niskala Agro Mandiri	Ciater, South Subang	Agriculture, Trade

Source: processed by authors

The research method used in this research is interviews. Data was obtained directly from respondents, they are business entity managers. Respondents were selected through initial observation, interaction and discussion. Focused individual interviews aim to obtain data regarding activities related to sustainability issues and how the business entity handles them. To collect data, members are asked a number of questions and then asked to tell a story. These questions regarding environmental and social impacts are asked. They were also asked to share and identify the efforts they made to mitigate environmental and social impacts. How to? What happened and business entities can do to address this. After hearing that all business entities had carried out various activities to address sustainability issues in their business fields, an introduction to sustainability reports was also presented.

4. EMPIRICAL RESULTS

Results

This section discusses the answers obtained in interviews with business entity managers regarding environmental impacts and the efforts that have been made by the company to overcome this. We also asked questions regarding the reports they made in these activities. Following are the results of the interview:

Table 2: The Interview Results

Business Entities	Possible Environmental or Social Impacts	Efforts made by business entities	Reporting
A	Production waste	Utilizing coffee grounds and implementing sustainable farming practices	Only record these activities in the financial statements
B	Impact of environmental pollution on the sea and coast, road damage due to large vehicles carrying out transactions	Regularly plant trees and repair and maintain local public roads, recruiting local people as workers	Only record these activities in the financial statements
C	The use of pesticides and herbicides can cause environmental damage and reduce soil quality.	Reduce the use of pesticides and use compost to improve soil quality	Haven't recorded yet
D	Plastic waste, household waste	Recycle plastic materials	Haven't recorded yet
E	Cut fabric waste	Implementing lean manufacturing method	Haven't recorded yet
F	Plastic waste, household waste	Recycle plastic materials	Haven't recorded yet
G	The use of pesticides and herbicides can cause environmental damage and reduce soil quality.	Reduce the use of pesticides and use compost to improve soil quality	Haven't recorded yet

The data above is a summary of the results of interviews conducted with managers of small and medium business entities that were used as research objects. The order in the table does not indicate the order of business entities written in the previous table. From the results of the study it can be concluded that all research objects already know the environmental impact of the business they do and have made efforts to overcome it. However, only 2 out of 7 small and medium business entities have recorded this matter. When asked in more depth, the recording is still a simple recording that is integrated into the financial report. Based on further interviews, this is also only done because of their concern for the environment but not for recording. and reported in a separate special report from the financial statements.

Furthermore, other several small and medium business entities also said that they were small business entities whose employees were still under 10 people, so for them focusing on business and completing simple reports was enough without needing to make a sustainability report.

Discussion

Preparing a Sustainability Report must consider many things, including company goals, strategies and what benefits are expected to be met. Therefore, it is not just one or two parties who do this, but must involve many related parties. One of the guidelines used in preparing a Sustainability Report is to use GRI standards. GRI (Global Reporting Initiative) is an international organization that helps companies in preparing sustainability reporting standards. This strategy for implementing Sustainability Accounting and Reporting in Business Entities refers to the GRI sustainability report so that each aspect will meet the needs of GRI reporting, the strategy can be sequenced as follows:

1. Introduce the importance of sustainability.

Before starting the preparation of the sustainability report, in the first two months it is necessary to hold a meeting with the parties responsible for preparing the sustainability report. The method used can be through seminars, briefings and discussions regarding environmental impacts and sustainability. In this activity there will also be a process of uniting opinions and voices regarding what the concept of "Sustainability" actually means. Information about the concept of sustainability must be conveyed in advance for at least the first three months to the management of the business entity. Furthermore, after the concept of sustainability can be understood by business entity managers, the next step is to create an outline or draft report that will be prepared. The report contains an executive summary, the reasons the company decided to get involved in sustainability, how the company is trying to achieve these goals, estimated costs, specific benefits expected by the company, program status reports, and a summary of recommendations. The executive summary must contain a brief description explaining what the sustainability report contains. The process of making this outline will take about one month.

2. Identify sustainable activities and their implementation.

After understanding the importance of sustainability and having an outline of what will be reported in the sustainability report, the next step is to make strategic goals or main goals that the company wants to include in the report. At this stage business people can be invited to use logical thinking "why should the company do this" rather than "how will the company achieve this". After this is completed, a list will also be made containing any ongoing programs or activities that have been, are being, and will be carried out by the business entity and the specific strategies used for each of these activities are adjusted to the operating activities of the business entity. If the business entity previously had an ongoing program or activity, a status report will also be included. Business entities will be directed to make specific snippets of what percentage of activities have been carried out, what resources have been used, and what benefits have been generated by each report writing. Also include the estimated costs incurred until the progress reaches the end. This activity can last for one month.

3. Implementing to generally accepted standard

If a business entity fully understands, outlines and lists adequate activities according to capabilities and needs, the next step is to implement these things while collecting records and evidence of activities. This is then included through a framework that has been prepared periodically. The responsible manager can later release the report either on the website or in printed form as company documentation. This is a form of responsibility of business entities to

the environment and society. Furthermore, for accounting records, systematic steps are also needed so that sustainability accounting can be implemented together with sustainability reporting. So the authors propose the stages of a strategy for implementing sustainability accounting, first socializing sustainability, second collecting transaction evidence, third recording transactions and the last one is recording sustainability accounting to generally accepted standards

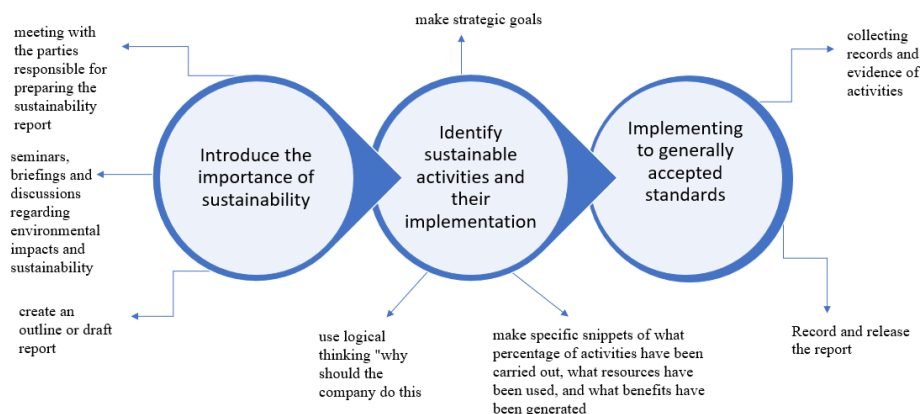


Image 1 The Strategi for implementing Sustainability Report

5. CONCLUSION

Based on the findings, all business entities interviewed are aware of environmental impact issues and are trying to take part in handling them. However, this is still not enough because there is no concrete evidence that can be found if a business entity reports this through a sustainability report. To implement this, the authors provide three strategies for implementing sustainability reporting, namely by introducing the importance of sustainability, identifying sustainable activities and their implementation, then applying sustainability reports to business entities. It is still too early to say that the strategy provided for the implementation of sustainability reporting can be successfully implemented, in this case, of course, further research is needed for its application to various business entities in various places in various sectors. Researchers hope that in future research they can find out more about this implementation strategy and how it will impact business entities in the future.

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