



## INTEGRATED REPORTING: CORPORATE SUSTAINABLE LEADERSHIP STRATEGY IN THE FUTURE

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### ABSTRACTS

This paper aims to explain the essence of implementing Sustainability Strategy in the company, for the benefit of the company in the long term. This research uses a qualitative analysis approach with earnings per share and the growth of company stock prices in the Financial Services Institutions, Issuers and Public Companies sector. First, this paper will prove a positive correlation between the implementation of the Sustainability Strategy and the company's profitability in the future. Furthermore, the author also analyzes the fundamental weakness of the Integrated Reporting systematics which makes it difficult to compare between companies. Therefore, the author offers a universal measurement standard that can be used by external and internal parties of the company in assessing how far the company is implementing its Sustainability Strategy. This standard measure will later become a means of proving the company's ability to maintain its business continuity in the long term and affect its current valuation. Sustainability Strategy is an important factor in the long-term sustainability of the company. However, it is undeniable that the Sustainability Strategy launched by the Indonesian government still has several weaknesses. This paper is expected to answer the challenges of the role of accountants in Indonesia in facing the revolution from Traditional Accounting to Sustainability Accounting, especially in optimizing the Integrated Reporting scheme by companies.

**Keyword:** Sustainability Accounting, Integrated Report, Sustainability Index, Sustainable Development, and Investment.

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## **1. INTRODUCTION**

Decades ago, companies were still fixated on the traditional, mistaken assumption that the earth provides unlimited natural resources and has an eternal capacity to absorb waste disposal. As a result, companies focused only on pursuing economic profit without considering the negative externalities they bring to social and environmental conditions. Today, we are faced with a natural and social crisis that has increased the awareness of the world community regarding the importance of implementing the principles of Sustainable Development in all aspects of life.

This then encouraged companies to change their business models to align with the concept of Sustainable Development. Companies realize that the benchmark for long-term success and social acceptance by society is not only seen from economic indicators alone but also the company's ability to reduce the negative impact of its operations on the environment and provide added value to the wider community (Putri, 2020). The company's ability to apply Sustainable Development strategies in its business is what is then integrated through an Integrated Report that can be accessed by the public.

Indonesia also follows this development with Law number 40 of 2007 which stipulates that every company that carries out its operations in the natural resources sector is required to carry out social and environmental responsibility or Corporate Social Responsibility (CSR). Unfortunately, currently CSR activities do not fully contribute to sustainable development and many are more directed towards greenwashing or marketing tools for companies (Budirahardjo, 2019). This trend is caused by the absence of a measurable and accountable reporting instrument which was ultimately answered by the presence of Sustainability Reporting innovation, or the updated Integrated Reporting.

Seeing this urgency, OJK issued POJK No. 51/2017 which regulates the Implementation of Sustainable Finance for Financial Services Institutions, Issuers, and Public Companies. Based on this regulation, in the future the implementation of Sustainability (Integrated) Reporting as a supporter of sustainable development will become a specific and binding obligation for financial services institutions, issuers and public companies in Indonesia.

Until now, the implementation of Integrated Reporting in Indonesia which is regulated by the Financial Services Authority (OJK) is still voluntary. The infographics show that by the end of 2016, only 9% of Financial Services Institutions and Issuers listed on the Indonesia Stock Exchange (IDX) had started to publish Integrated Reporting. This number shows the lack of enthusiasm of companies in Indonesia in being accountable for implementing their sustainability strategies. Companies that are already able to list their shares on the Indonesia Stock Exchange should have the capacity to implement Sustainable (Integrated) Reporting. Sooner or later, the concept of sustainable development will disrupt the way humans do everything to pay more attention to its impact on the environment. Companies should see this as an opportunity to become a leading organization in implementing sustainability initiatives (Kiesnere and Baumgartner, 2019). Although this step requires large expenditures and several complicated phases in its implementation, companies are actually investing in their future success. However, it cannot be denied that there are still several possible gaps that become obstacles for business actors in applying Integrated Reporting. Therefore, through this paper the author hopes to provide a solution to optimize the function of the Integrated Report as a form of sustainability strategy.

## 2. RESEARCH METHODS

In this study, the author uses a literature study approach through secondary data. The secondary data obtained varies from university articles, journals, company financial reports, government report data, and other readings from national and international media.

After all the secondary data needed is collected, the data analysis process is carried out using qualitative and quantitative descriptive analysis methods, then observed and placed based on a specific relevant focus. For quantitative data processing, the author uses the Compound Annual Growth Rate (CAGR) calculation method with appropriate variables. Furthermore, the information that has been produced will be interpreted.

The method of drawing conclusions used in this study is inductive, namely determining general conclusions based on the results of the secondary data analysis that has been obtained previously. Drawing conclusions is done with the aim of proving that the implementation of the Integrated Report publication with the utilization of Sustainability Accounting practices is an appropriate sustainability strategy for companies in Indonesia as well as in the realization of sustainable development 2030 (Sustainable Development Goals).

## 3. RESULTS AND DISCUSSION

### 3.1 Correlation between Integrated Reporting and Future Company Profitability

Many parties state that the company's expenditure related to Sustainability Accounting in creating Integrated Reporting will get good benefits in the future. However, the picture of the benefits itself is still unclear. This often hinders companies from implementing sustainability strategies due to the many uncertainties of the promised benefits. Therefore, the author tries to comprehensively examine the real benefits of Integrated Reporting publication through the practice of Sustainability Accounting by accountants qualitatively and quantitatively.

#### ***3.1.1. Implementation of Integrated Reporting through Sustainability Accounting practices as a Company Investment in the Future***

[Deloitte \(2019\)](#) states that "sustainability factors" are a fundamental part needed to achieve higher profits and resilience for organizations/companies. In 2020-2021, IFAC has also published new standardization and recommendations for all companies to publish company performance comprehensively, called Integrated Reporting, which is a combination of Financial Reports and Sustainability Reports. On the other hand, [IAI \(2020\)](#) states that professional accountants must be able to provide a broad influence on organizations for innovation, risk management, and provide evidence of essential success. So, if linked and concluded, these two statements support the role of today's accountants in maintaining the stability of the company's real and financial sector businesses through their role in creating Integrated Reporting as a form of corporate sustainability strategy with the implementation of Sustainability Accounting practices. However, the costs incurred by the company related to Sustainability Accounting will certainly not have an instant impact. Therefore, the costs incurred are an investment for the company in the future. Specifically, the implementation of Sustainability Accounting will provide certainty to investors that the company will continue to grow in the long term. This provides an opportunity for companies to have a bargaining position ( in negotiating with investors. With the availability of an easily accessible Integrated

Report, the public will also find it easier to access information about the company's responsibility for Sustainable Development. The company's legitimacy, credibility, and reputation will increase because the public will realize that the company has accountability and transparency in responding to environmental and social issues.

In addition to increasing corporate awareness of the company, the implementation of Sustainability Accounting carried out by accountants in producing Integrated Reports also provides many benefits in the business process. Company management can map out business operation opportunities that are more cost-effective and oriented towards sustainability. Companies can also evaluate, control, and reduce risks and costs related to environmental and social impacts. Companies will have more comprehensive analysis materials in determining the amount of production costs and setting more accurate selling prices.

Overall, the implementation of Sustainability Accounting will help management to produce responsible decisions, through the creation of Integrated Reports (Akpan et al., 2023). This will also raise awareness of all stakeholders towards the environment and society in carrying out their work. Likewise, the company has made a real contribution to the Sustainable Development movement. Of course, these benefits cannot be felt instantly and still require mature execution. This is the reason why the publication of Integrated Reports through Sustainability Accounting practices is a promising future investment for companies.

### ***3.1.2. Positive Correlation Between Integrated Report Publication and Company Valuation in the Eyes of Investors***

As previously explained, companies that have implemented a Sustainability Strategy will upload a Sustainability Report and Financial Report integrated into an Integrated Report to the public. This will then strengthen the company's valuation in the eyes of investors. In determining their portfolio, investors generally compare several financial indicators to assess whether a company is worth investing in. Some of these indicators are Earning Per Share (EPS), Return of Equity (ROE), and Stock Price.

The author conducted an analysis by taking samples of companies from the Raw Material Processing Industry Sector (Mining), Manufacturing (Consumer Goods Industry), and Services (Property and Real Estate). The author used the Compound Annual Growth Rate (CAGR) calculation method and obtained the following fluctuation data. Adaro Company (ADRO), Unilever (UNVR), and PT Pembangunan dan Perumahan (PT PP) are samples of companies representing each sector that have published a Sustainability Report.

Based on the three graphs, it can be seen that Adaro Company (ADRO), Unilever (UNVR), and PT Pembangunan dan Perumahan (PT PP) have the least fluctuation. When viewed from an investor's perspective, companies that consistently perform well will be preferred. This is because investors tend to want to invest their capital in the long term, so companies with minimal fluctuations will have less potential to suddenly lose.

It is undeniable that the fluctuation of the CAGR value in each company is also influenced by several other factors. However, through this calculation, the company already has a quantitative picture of the benefits that will be obtained from implementing the Sustainability Strategy. If investors see that the company has minimal CAGR fluctuations and tends to move up, this will help the company in obtaining greater capital.

The large capital obtained from investors will then be managed properly and responsibly by the company's management as the author has explained in the previous section. This will certainly bring multiple positive benefits to the company both internally and externally. This is a qualitative and quantitative picture that the author can convey in this paper.

In addition, research conducted by [Natalia, R. & Tarigan, J. \(2014\)](#) entitled "The Effect of Sustainability Report on Public Company Financial Performance from the Profitability Ratio Side" also proves that social performance is positively and significantly related to financial performance from the Profitability ratio side. Meanwhile, the study also succeeded in proving that environmental performance is positively but not significantly related to financial performance from the profitability side.

### ***3.1.3. Various Countries in the World Have Realized the Potential of Implementing Integrated Reporting for Corporate Sustainability***

In the 2020 G-20 Summit, IFAC (International Federation of Accounting Committee) published that every company in the world is encouraged to update its reporting to the Integrated Reporting scheme. Integrated Reporting is an integrated report consisting of financial reporting and social responsibility/sustainability reporting (annual report and sustainability report) of the company to the public. This is a solution to increase company participation in achieving the SDGs in 2030.

The publication of this recommendation is also a practical way that can be easily followed by companies that still have difficulty in reporting their social responsibility along with their financial reporting ([Leuz and Wysocki, 2016](#)). With this new update, it is hoped that businesses in the global arena and all national governments can follow and encourage businesses in their countries to make the latest reports with the integrated reporting scheme as well.

However, based on the report made by the ASEAN CSR Network, Indonesia is still lagging behind other ASEAN countries in terms of the framework, materiality, and completeness of the Sustainability Report reporting. In addition, Indonesia is also still lagging behind in terms of transparency of information disclosure to the public and company stakeholders.

A survey conducted by KPMG on Corporate Responsibility (CR) in 2017 also shows that countries in the world have been actively implementing sustainability strategies. The survey divides countries in the world into three categories. The first category is High Rate CR (> 90%) with a total of 9 countries. The next category is Average Rate CR (72-89%) with a total of 22 countries. The last category is Lower Rate CR (< 72%) with a total of 17 countries. Sadly, Indonesia is not even included in one of the categories that show the lag of companies in Indonesia in terms of sustainability. This fact also shows that the implementation of Sustainability Accounting has a positive impact on the sustainability of the company. Because if not, then companies from various countries will not apply it. Thus, there is another strong reason for the Indonesian government to intensify Sustainability Accounting for domestic companies.

### **3.2. Ways to Encourage Companies to Optimize the Function of Integrated Reports as a Form of Sustainability Strategy**

The small number of companies in Indonesia that have implemented Sustainability Strategy is certainly caused by several reasons ([Irjayanti and Azis, 2012](#)). One of these reasons is that companies have difficulty connecting sustainability strategy and business as the ultimate goal. This is because the company's traditional business strategy that is oriented towards maximizing profit has been ingrained for a long time. Maximizing profit is needed so that the company appears to be experiencing good capital growth for the benefit of shareholders ([Jensen, 2010](#)).

It is undeniable that many parties, including the author, have tried to show that sustainable business practices will have greater profit projections in the long term. However, the variables used to prove this are still not perfect to close all black holes. The biggest question that often becomes an obstacle is to what extent companies should consider sustainability factors that require large expenditures, without any definite profit projections.

If drawn broadly, public companies need capital from shareholders to operate. Conversely, shareholders need to be convinced to continue investing in the company. Profit and growth are two things that are often used as a reference for comparison between companies by shareholders. If there is a decline in profits and stagnant growth figures, the greater the potential for shareholders to withdraw their capital and switch to other companies that have better performance. In other words, shareholders prefer companies that have the best performance compared to other companies ([Adams et al., 2011](#)).

Companies that are committed to implementing a sustainability strategy must allocate their funds to something that does not guarantee profit, because in conventional accounting environmental and social aspects are not taken into account. Of course, this will reduce the profit that the company will present to shareholders and end with the potential for the company to lose its capital.

However, this bad thing can be minimized if shareholders can compare the performance of the sustainability strategy of each company. Until now, the Integrated Report as a representation of the company's sustainability strategy can only be used as a reference for internal evaluation. The report is used to measure the extent to which the company's sustainability strategy has performed from year to year. It would be better if through the Integrated Report, shareholders could compare the performance of each different company. So even though it reduces the company's profit in the short term, the company can convince shareholders that they have better sustainability strategy performance than other companies.

The solution then encounters the fact that each company has different sustainability aspects. Geographical, social, economic, and other external factors make companies have their own preferences for implementing their sustainability strategies ([Tambovceva, 2016](#)). This is also what causes the Integrated Report to not be used as a comparison tool between companies. Thus, the author brings a solution by utilizing Artificial Intelligence technology to produce a universal sustainability measurement standard called the Integrated Index.



Artificial Intelligence works by combining large amounts of data quickly with repeated processing and using intelligent algorithms. This technology allows software to automatically learn patterns or features in the data. Data in this context are some of the typical elements of the GRI Standards used in the Sustainability Report including: Multi-stakeholder input, A record of use and endorsement, Governmental references and activities, Independence, and Shared development costs.

Basically, several parties have also tried to realize the Integrated Index such as the GRI Standard Score, ESG Score, and calculated directly by researchers. However, the index still has several weaknesses that have a significant impact on the final results of the report. The index calculated directly by researchers has a greater potential to obtain biased results, multiple interpretations, and experience human error.

By utilizing Artificial Intelligence technology, the obstacles related to indicators and assessment patterns that are less appropriate can be resolved ([Ahmad et al., 2021](#)). In the process of its implementation, Statistical Analysis System (SAS) divides Artificial Intelligence into several sub-fields. In this context, the sub-field that will be used is deep learning which uses a very large neural network with many layers of processing units. Based on SAS's explanation, this technology utilizes advances in computing power to learn complex patterns in large amounts of data. So even though each company has different sustainability strategy preferences with many factors, deep learning can produce an index that is unbiased and free from human error.

With the Integrated Index, the company's difficulties in connecting sustainability strategy and business as the ultimate goal can be resolved. Companies do not need to worry that capital owners will withdraw their capital due to a decrease in profits in the short term if they have a good Integrated Index. The emergence of this comparative reference will also encourage other companies to implement Integrated Reporting in their sustainability strategy.

Companies that are able to provide added value to their stakeholders through the implementation of Integrated Reporting will certainly have a good perception in society. Implementing a responsible sustainability strategy means providing assurance to investors that the company is able to continue its business in the long term. As a result, companies that implement Integrated Reporting will have a higher valuation in the eyes of investors.

Furthermore, the Integrated Index will attract the competitive nature of each company and voluntarily follow government regulations. This is because the Integrated Index is generated by analyzing data contained in the Integrated Report ([Landau et al., 2020](#)). So companies that do not publish their Integrated Reports will not have an Integrated Index. The use of the Integrated Index then becomes the solution that the author offers as a way to encourage companies to implement sustainability strategies.

Of course, in its application, every solution and recommendation has risks that must be considered carefully. In the realization of the Integrated Index, it requires quite a large cost in terms of research and development of AI technology in order to produce an index with the most appropriate algorithm composition. However, this can be overcome if all unions and accounting organizations in Indonesia coordinate with each other in dividing the research and development process so that the financing is not borne by one institution alone.

Another risk is the possibility that companies will use the Integrated Index as an arena for negative competition and forget the essence of sustainability itself. Therefore, in its application, the right approach and socialization are also needed for every company in Indonesia regarding the Sustainability Strategy and Integrated Reporting.

#### **4. CONCLUSION AND SUGGESTION**

##### **4.1. Conclusion**

Like a company that fails to keep up with technological developments, a company that is unable to move towards sustainable development will be left behind and defeated by companies that are able to adopt Integrated Reporting. Companies must be able to see the costs incurred for this effort as an "investment" for greater benefits. Based on the results of this study, it can also be concluded that companies that have published Integrated Reports have better and more stable performance so that they are preferred by investors. However, the company's motives in adopting Integrated Reporting must still be interpreted with sincerity that this effort is aimed at something greater than just business profitability. The implementation of this sustainability strategy then becomes a form of the company's contribution to improving social welfare and environmental preservation. One way to motivate companies to publish Integrated Reporting is to utilize the instinctive nature of companies that are always competing to prove their superiority compared to their competitors. Integrated Index, with the use of Artificial Intelligence technology, is the solution. The index is produced from the processing and comprehensive analysis of various data contained in the Integrated Report which can then be relied on as a tool for comparing the sustainability performance of each company. This will then motivate companies to give their best efforts if they want to get good index numbers.

##### **4.2. Suggestion**

In addition to creating a major initiative for companies to be better than their competitors, the Integrated Index can be a standard for the government to test the feasibility of a company against its impact on environmental and social welfare. The government can also provide incentives and prestigious recognition for companies that achieve outstanding Integrated Index figures. This Integrated Index is also expected to be a new indicator that makes it easier for investors to consider the valuation of a company's shares. Therefore, the author suggests that the government and accounting organizations in Indonesia develop an Integrated Index based on Artificial Intelligence to obtain the most appropriate analysis indicator pattern with results that are free from bias and manipulation. Implementation of laws on everything is a must, where laws are the basis for a person or group to carry out activities. The implementation of CorpU training is also one of the activities that must be implemented in its implementation, in this case PT PLN which in 2012 established its own CorpU and was approved by the Minister of BUMN in 2014. Less than a year since the ratification of PLN CorpU, it has been holding training based on CorpU, and should run by implementing laws in all its activities.



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