

CHAPTER I

INTRODUCTION

1.1. Research Background

Environmental issues are currently on the spotlight ever since they were first emerged in the last two decades. The citizens, both nationally and internationally, had started to pay more attention towards current environmental problem such as pollutions, global warming and the degradation of ozone sphere (Rout, 2010). A 22-country public survey established by the George H. Gallup International Institute in 1992 that covered Canada to Uruguay and also India to Russia has presented some intriguing findings in regards to how the concern about environment has become a worldwide phenomenon. Among the key findings supporting this statement are listed below (Elkington, 1994:92):

1. By 1992, the environment was rated as one of the three most serious problems in half of the 22 countries surveyed—and only small percentages of people in any nation dismiss environmental issues as "not serious".
2. Majorities in most countries say the environment is affecting their health (a number up substantially from a decade ago), and even larger majorities expect environmental problems to affect the health of their children.
3. The depth of concern over environmental threats is apparent in the fact that majorities in 20 of the 22 countries gave priority to environmental protection, even at the risk of slowing economic growth. In 16 nations,

including many of the poorer ones, majorities said they are willing to pay higher prices for environmental protection.

4. Consistent with the belief that individual action is worthwhile, citizens around the world reported taking actions to protect the environment. Most popular was "green consumerism." In 16 of the 22 countries, over half of the respondents reported avoiding products that are harmful to the environment. Over a quarter of the respondents in every nation said they had acted as "green consumers" in the previous year. Particularly high scores showed up for Canada, Chile, Finland, Norway, Switzerland, the United Kingdom, and (West) Germany.

These increasing concerns for environment had further pushed the need to maintain environmental sustainability. The effort to increase international awareness in regards to sustainability had already started even much prior to 1992 Earth Summit in Rio de Janeiro and further escalated with the implementation of Kyoto Protocol since February 16th, 2005 (Jones, 2010; Lezni, 2000).

From business perspective, the effort to maintain sustainability was solidified since 1991 through the introduction of Eco-Efficiency, a single concept to sum up the business end of sustainability development. In simplest term, World Business Council for Sustainable Development (Lezni, 2000) describes Eco-Efficiency as a creation of "more goods and services with ever less use of resources, waste, and pollution". This notion slowly earned its favor among business practitioners especially for in the next decade there was this major change of perspectives among society due to the increasing environmental

concern and therefore, pushed the business world to follow a new course. Companies which previously respected for their contributions in the industrial technologies and economies were later shunned for causing significant harms to their environments (Bebbington and Gray, 2011). As an immediate effect, these companies turned their attention to the idea of eco-efficiency. This phenomenon, as later noted by accountants and many accounting literatures, was known as the beginning of the new era where environmental issues had become a great concern not only among the general society and business, but also among the stakeholders (Chatarjee and Alagiah, 2012). Combined with the increasing interest in sustainability and eco-efficiency, this new concern of stakeholders had created a new need for proper reporting, which in turn, triggered new stirring in the accounting world. To fulfill the stakeholders' needs for information, an accounting system was expected to provide more information in regards to environmental and sustainability aspect of business. Therefore, a modern concept in accounting was formulated in the name of environmental accounting.

Now, Indonesia was among developing countries which formally committed in the implementation of the Kyoto Protocol through deforestation. Ever since it became the host for UN Climate Meeting in December 2007, Indonesian government continuously paid more attention for climate change issue. On G20 Meeting in Pittsburgh in September 2009, Indonesia became the first nation to announce its willingness to reduce GHG emission up to 26% (or 41% with the full support of developed nations) by the end of 2020 (Wahyuni, *et al.*, 2012). Ironically, the government's enthusiasm was not shared among Indonesian

citizens. In fact, Indonesia was currently facing similar problems with other nations in regards of its citizens' low environmental awareness (Jones, 2010). The database of the State Minister for the Environment had listed only 699 companies followed government's program related to the assessment of their performance on environmental management (Penilaian Peringkat Kinerja Perusahaan untuk Pengelolaan Lingkungan) in 2010. This number increased to 1.002 in the 2011 (Alimbudiono, 2012). Furthermore, Susilo (2008) also learned that among those numbers, only some companies actually reported their environmental activities for public accountability. This reality not only emphasized on the low environmental awareness of Indonesian citizens (and companies), but also hindered the development of environmental accounting practice in Indonesia. The irony of this situation was that despite being a country well-known for its nature and environment, Indonesia still executed minimum implementation of environmental accounting which should be in favor for countries with high dependency on natural resources.

On a previous research by Rahahleh (2011) in Jordan, there were four aspects said to determine the extent of environmental accounting implementations among business practitioners, which are: (1) the government's regulations, (2) the skills of companies' human resources, (3) the incentive system, and (4) the clarity of concept, general frameworks, and accounting standards. These four aspects involve several different entities which should be essential "players" to directly contribute in the implementation of environmental accounting. These entities include government, regulators (standard bodies), management, and educational

institutions (which responsible in educating companies' human resource). Aside from these players, there are also owners (shareholders) and society which also play important roles in encouraging the business practitioners to implement environmental accounting.

What we can relate from Rahahleh's study with this current one is that in order to extend the implementation of environmental accounting in Indonesia, it is essential to encourage environmental awareness among those "players" as well as to provide better understanding, especially in practical aspect of environmental accounting itself. This research aims to contribute on those two main goals, especially in regards to one specific player, educational institution, since it plays a major part in creating future accounting generations with high awareness and understanding of environmental practices.

Now, as previously stated, environmental accounting is a concept that was born to incorporate the need for environmental-related information in the business. On the other hand, the need for environmental-related information was rooted from the increasing environmental awareness, the same awareness which eventually established the need to maintain sustainability. Furthermore, it was also mentioned that sustainability brought forth a management goal known as eco-efficiency. In other words, we can say that to be eco-efficient, a company must carefully monitor its environmental information, especially through environmental accounting. Therefore, studying environmental accounting implementation will eventually leads us to understand the extent of the company's effort on maintaining its eco-efficiency. Based on this logical assumption, this research will

study the Environmental Management Accounting (EMA) implementation in the assessment of eco-efficiency in PT Semen Indonesia (Persero) Tbk. (or later known as PT SI), a major producer in cement industry in Indonesia. By the nature of its purpose, this research will benefit the most from using qualitative research method. The reasons for choosing PT SI as the most suitable research site are stated as follows:

- a. PT SI is a chemical-based industry. Its production process consumes high electricity, water, and releases high amount of carbons and other chemical substances which potentially harmful to the surrounding environment.
- b. PT SI is one if not the biggest industrial player in cement market in Indonesia which has been acknowledged internationally. As the largest cement factory in Indonesia, it supplies approximately 44% of domestic market (www.semenindonesia.com, 2014).
- c. PT SI has received a Gold PROPER in 2012-2013, the highest rank given to the company in Indonesia from the annual assessment of environmental performance held by Indonesian Ministry of Environment. The criteria in PROPER are meant to assess the company's compliance towards existing environmental regulations, such as waste management, pollution control, etc. Considering PT SI has earned gold PROPER award from this assessment, we can expect that PT SI maintain their environmental impact very carefully and thus indicates a good practice in eco-efficiency. With this fact in mind, Author believes PT SI will be an ideal site for this research.

1.2. Research Problem

As previously mentioned in the research background, this research's focus is to provide in-depth knowledge of EMA implementation in maintaining eco-efficiency in PT SI. These are the main problems addressed in this study:

1. Why does PT SI strive to attain eco-efficiency?
2. How does PT SI strive to attain eco-efficiency?

1.3. Research Objectives

As previously stated in the background section, the objective of this research will be to provide knowledge of:

1. The incentives for PT SI in Gresik, East Java to attain eco-efficiency.
2. The implementation of EMA in attaining eco-efficiency in PT SI.
3. The benefits from EMA implementation in PT SI in maintaining its eco-efficiency.

1.4. Research Contribution

In general, this research will contribute in providing additional literature to understand environmental accounting practices to support eco-efficiency as well as their importance in Indonesian business. It is essential to understand these two points because mainly by realizing the importance of these environmental practices that we can establish a high environmental awareness in educational level. The increasing environmental awareness in educational level can be attained when: (1) the accounting students realizes that having proper knowledge of

environmental accounting and eco-efficiency will prepare them better when they take their roles as major players in the future business practice, and (2) the accounting educational system includes more extensive elaboration of the importance of environment in business as well as how it is implemented in practical level. This research aims to contribute as an “eye-opener” towards these goals. Aside from its theoretical contribution, this research will also contribute in providing additional literature in qualitative case study method design in accounting research.

