SUSTAINABILITY DISCLOSURE IN SUPPORTING GOOD GOVERNANCE PRACTICES IN THE PUBLIC SECTOR

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Abstract

The practice of issuing sustainability reports, which has been widely adopted by private parties, does not appear to be a big concern for the public sector, particularly government organizations in Indonesia. This research examines the feasibility of issuing sustainability reports for government agencies as part of adopting good governance exercises. The scoping review approach is used in this study to collect information from references related to sustainability disclosure and then evaluate situations relevant to the aims and scope of research connected to governance in the public sector. This study concludes that sustainability disclosure is driven by the role of management from internal organizations, motivational references such as those in the private sector, and a commitment to reducing emissions and implementing sustainable governance. However, obstacles exist in the form of undeveloped public sector sustainability reporting standards. This research is expected to contribute to Indonesian government agencies, KSAP, and the larger community developing policies and standards for sustainability disclosure in the public sector.

Keywords: *good governance, public sector, sustainability reporting*

1. INTRODUCTION

The concept of sustainability first emerged in 1972 through the book 'The Ecologist's A Blueprint for Survival,' which stated that the current industrialization was living with an unsustainable expansion ethos (Basiago, 1995). This idea was further supported by 'The Limits to Growth' report, which argued that if the trends of economic growth, population, industrialization, resource use, and pollution continued without change, the Earth's carrying capacity would reach its limits sometime within the next hundred years (Meadows et al., 1972; Paul, 2008). As a result, to build a sustainable contemporary civilization, the United Nations Conference on The Human Environment, the first international conference solely focused on environmental issues, was launched in Stockholm in 1972 (Basiago, 1995; Paul, 2008). Sustainable development, as defined by the World Commission on Environment and Development (WCED) in its 1987 report "Our Common Future," is the development that satisfies current needs without jeopardizing the ability of future generations to satiate their own needs (Basiago, 1995; Scoones, 2007; Paul, 2008).

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According to this concept, sustainability can be applied to three aspects of life: financial concerns, environmental protection and management, and individual society and human well-being (Arowoshegbe et al., 2016). These elements were later adopted by the business community, giving rise to the triple bottom line concept, which views sustainability as one of the business goals that lead to several new approaches in accounting and auditing (Scoones, 2007). The term "triple bottom line" (TBL) refers to a framework for analyzing an organization's societal, environmental, and economic consequences and integrating sustainability concerns into financial planning and accounting practices (Scoones, 2007; Arowoshegbe et al., 2016).

However, there are issues with applying sustainability, such as greenwashing. When a business spends extra effort and money promoting itself as environmentally friendly when it is not, the practice is known as greenwashing (Ozili, 2022). According to Testa et al. (2018), greenwashing undermines a company's accountability to stakeholders and the credibility of environmental initiatives. Therefore, sustainable disclosure has been developed to mitigate the impact of greenwashing by ensuring that organizations genuinely follow through on their claims to protect the environment (Ozili, 2022).

Sustainability disclosure has a history and has gone through several developments. Throughout the 1970s, companies used social reports to communicate their social objectives and the positive and negative impacts of their operational activities (Herzig & Schaltegger, 2011). Moving into the late 1980s, the environmental effects caused by companies were reported in environmental reports (Larrinaga & Bebbington, 2021). Approaching the end of the 19th century, global attention shifted toward sustainability reports that disclosed the environmental aspects of a company's activities and the social and economic aspects (Gokten et al., 2020).

Sustainability reporting discloses an organization's environmental, social, and governance objectives (Delubac, 2023). The production of sustainability reports is now considered best practice for big businesses (Larrinaga & Bebbington, 2021). Currently, there are several global standards that organizations around the world use as guidelines for creating sustainability reports, including the Carbon Disclosure Project (CDP), Climate Disclosure Standards Board (CDSB), Sustainability Accounting Standards Board (SASB), International Integrated Reporting Council, and the Global Reporting Initiative (GRI) (Müller, 2022). In the meanwhile, financial institutions, issuers, and publicly traded firms in Indonesia are required to declare their economic, social, and environmental performance in a separate Sustainability Report from their Annual Report through Financial Services Authority Regulation (Otoritas Jasa Keuangan/OJK) Number 51/POJK.03/2017 on the Implementation of Sustainable Finance for Financial Institutions, Issuers, and Public Companies (Adhariani & du Toit, 2020).

The 2020 Sustainability Reporting Survey conducted by KPMG found that most companies that produce sustainability reports use the GRI (Global Reporting Initiative) standards as their guidelines (Tempero, 2019). The GRI standards are developed by the Global Sustainability Standards Board (GSSB) and enable organizations to disclose to the public the most significant impacts of their operational activities on economic, environmental, social, and human rights aspects, as well as how the organization manages these impacts (GRI, 2023).

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The GRI standards (2022) have established guidelines for disclosure related to an organization's profile, strategy, ethics and integrity, governance, stakeholder involvement, and reporting methods. The GRI standards also strongly emphasize areas of management approach, such as material issue explanation, management approach, and management approach evaluation. The provisions in universal GRI standards, in general, serve as an impetus for government agencies to fulfill their commitments and considerations regarding sustainability aspects in the field of public services.

In line with the accountability and transparency of economic, environmental, and social aspects of private entities promoted by GRI, these principles can also apply universally, including in the public sector or government agencies. Good governance emphasizes a synergistic and constructive relationship between the state, the private sector, and society (Santosa, 2008). When connected, the sustainability aspect in public agencies cannot be separated from the attention of stakeholders such as the public and businesses. It's not an exaggeration to say that the public, as the ultimate stakeholders in public institutions, eagerly awaits comprehensive sustainability reporting that reflects good governance practices, just as the principles of accountability and transparency do.

Based on practices in Indonesia, the disclosure of sustainability aspects has become a concern for many businesses listed on the stock exchange. Although there is room for improvement in quality, many companies have been able to understand the needs of stakeholders for sustainability information presentation (Firmansyah et al., 2022). In contrast, sustainability reporting practices in the public sector are still relatively rare. So far, the Sustainability Report of the Indonesian Audit Board (Badan Pemeriksa Keuangan/BPK) for 2020 is the only example of a sustainability report from a government agency. In addition, the Indonesian government has published reports on implementing Sustainable Development Goals (SDGs), with the latest one being issued in 2022.

Sustainability reporting in the public sector should be widely adopted to reap various benefits, similar to the private sector. Bornemann & Christen (2019) state that sustainability reporting is crucial in supporting sustainable development goals set by government policies that require strategic governance. Additionally, sustainable governance can enhance the implemented policies' legal, political, and scientific certainty. Therefore, implementing sustainability disclosure to strengthen good governance practices in the public sector in Indonesia is an interesting topic that warrants further research.

In line with this situation, studies addressing the opportunities for sustainability information disclosure in the public sector, especially for government agencies in Indonesia, are still very limited. It's also the author's motivation to write this paper. Besides, this paper explores the potential for creating sustainability reports for government agencies as a practice of good governance. This study also discusses management perspectives on sustainability disclosure, the motivations of institutions/agencies in disclosing sustainability information, and a review of the best practices from around the world.

This research differs from prior studies that primarily analyzed the advantages of sustainability disclosure in the corporate sector, such as the positive effect on increasing firm value (Aksan & Gantyowati, 2020; Hardi et al., 2023) and the significant effect on profitability through the corporate social responsibility (CSR) disclosure. In addition, the

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research of Harymawan et al. (2020) also added that an increase in firm value could be achieved if the firm has external assurance of its sustainability reports. Examining the positive effects of sustainability disclosure in the corporate sector, this research considers sustainability disclosure in the public sector as an initial foundation to drive the development of policies related to sustainability disclosure standards. This research is expected to contribute significantly to the literature on sustainability accounting and public sector accounting while promoting increased implementation of sustainability reporting in public institutions. Furthermore, this research can raise awareness and public scrutiny regarding the presentation of sustainability reports in the public sector.

2. LITERATURE STUDY

Stakeholder Theory

According to the stakeholder theory, employees, suppliers, local communities, creditors, and others are all constituents touched by business organizations (Lin et al., 2018). The stakeholder perspective on organizational strategy also incorporates a sociopolitical level.

Stakeholder theory aims to establish an entity's specific stakeholders and then investigates the circumstances under which managers treat these parties as stakeholders (Phillips, 2003). This approach outlines and suggests techniques for management to consider the interests of those stakeholder groups. There has been a significant surge in the theory's prominence, with experts questioning the sustainability of focusing on shareholder welfare as the most fundamental goal of business (Freeman et al., 2010).

Institutional Theory

Modern organizations compete with other organizations not only for resources and customers. Modern organizations also compete with each other for political power and institutional legitimacy. The concept of institutional isomorphism is a useful tool for understanding much of modern organizational life (DiMaggio & Powell, 1983). Isomorphism forces an organization in a population to resemble another organization with similar environmental conditions (Hawley, 1968). Institutional isomorphism is a term that describes the institutionalization process. Meanwhile, institutional theory is a theory that explains the homogenization phenomenon (DiMaggio & Powell, 1983).

DiMaggio & Powell (1983) identify three mechanisms for institutional isomorphism change. First, coercive isomorphism results from formal and informal pressures exerted on organizations with other organizations. In addition, coercive isomorphism can also occur due to pressure from local community culture. Second, mimetic isomorphism occurs when environmental uncertainty or ambiguous goals make organizations imitate other organizations. Third, normative isomorphism is related to an organization's professional demandsDiMaggio & Powell, 1983).

Good Governance

Governance in the public sector is not much different from governance in the private sector (Alqooti, 2020). Massey & Johnston-Miller (2016) defined public sector governance as a group of public actors who are responsible for designing, implementing, and enforcing certain policies/regulations and can oversee and coordinate various government entities. The characteristics of public sector governance are related to service

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to the public and accountability of public policy's impact on the public (Almquist et al., 2013).

Generally, good governance can be measured through the five basic principles of transparency, accountability, responsibility, independence, and responsibility (Ekasari & Kus Noegroho, 2020). Syofyan & Putra (2020) explained the definition of each of the above principles. Transparency is defined as openness in decision-making and the relevance of information used by companies. Accountability is defined as the clarity of the system and function of corporate management responsibility. Then, responsibility is compliance and suitability in running the company under the rules of the law. Independence is managing a company with a professional without a conflict of interest that can influence the company's policies. Lastly, liability is a fair attitude to fulfill the rights of shareholders under existing rules.

Implementation and disclosure of sustainability reports will be implemented when companies have good governance (Correa-Garcia et al., 2020). Effective governance implementation will increase corporate value and public confidence(Ekasari & Kus Noegroho, 2020). Moreover, good governance can achieve professional, transparent management and decision-making based on moral values and compliance with applicable laws and regulations (Gani et al., 2020). Good governance can also prevent maladministration and minimize corruption in the public sector. As a result, the quality of government has improved (Addink, 2019).

Sustainability Governance

A business entity's disclosure of sustainability topics is closely linked to positive accounting theory (Deegan, 2014). Motivation theories can influence management's considerations in revealing sustainability aspects as they do in accounting, namely legitimacy, stakeholder, and institutional theories. According to Gray et al. (1996), the theory of legitimacy is a system of management of a business entity oriented towards the existence of society, government, individuals, and community groups. Further, according to Deegan (2014), the theory emphasizes the importance of business operations to align with the public's expectations under the social contract.

Meanwhile, stakeholder theory considers that an entity operates for its benefit and must provide benefits to stakeholders. This theory emphasizes disclosing information based on ethical, normative, prescriptive, and positive aspects (Deegan, 2014). The next theory is the institutional theory, which explains the tendency of change in an entity towards a certain similarity or homogeneity (DiMaggio & Powell, 1983). According to Scott (2008), institutional policy can be influenced by the regulatory pillar through the formation of rules, the pillar of social norms and values, and the cultural-cognitive pillar.

The three theories above are a major foundation for the private sector in presenting sustainability information in some form of reporting. Meanwhile, due to the implementation of sustainability governance in the canton of Switzerland, the perspective of government policy reporting is used to drive transformation in ways that shape and direct public action (Bornemann & Christen, 2019). It proves that the implementation of stakeholder and institutional theory can be met through the supervision of sustainability policy planning at the canton level and efforts to integrate sustainability reports as an output of a canton body.

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Sustainability Reporting in Indonesia

Since the triple bottom line was launched, implementing social and environmental considerations or business sustainability aspects demanded by stakeholders has become an international trend (Gunawan et al., 2022). The company subsequently publishes sustainability reports to provide transparency in communication with stakeholders regarding corporate social and environmental performance (Junior et al., 2014; Lozano & Huisingh, 2011). Sustainability reports are designed to help companies plan, prepare, report, and disclose information about corporate commitments, implementation of measurements, disclosure, and accountability for the management of economic, social, and ambient performance, as well as corporate governance to the stakeholder to realize a sustainable corporate vision and goals (Ariyani & Hartomo, 2018).

The Indonesian government has also issued a regulation that obliges Indonesian or foreign companies operating in Indonesia to undertake corporate social responsibility (CSR) or sustainable activities (Gunawan et al., 2022). The 2007 Act No. 40 on Limited Partnerships stipulates that annual reports submitted to RUPS must include reports on the implementation of social and environmental responsibility. In addition, sustainability reports in Indonesia are also endorsed by 2007 Law No. 25 on Capital Plantation and Government Regulation No. 47 of 2012 on Social Responsibility and Limited Partnership Environment (Soleha, 2019).

Ariyani & Hartomo (2018) also revealed that the development of sustainability reports in Indonesia showed a positive increase from previous years and was not limited to companies listed on the stock exchange but also SOEs, small and medium-sized companies, and non-profit organizations. Based on this situation, the Financial Services Authority (OJK) has stipulated Financial Services Authority Regulation Number 51/POJK.03/2017 on the Implementation of Sustainable Finance for Financial Services Institutions, Issuers, and Public Companies. This regulation regulates and requires companies in Indonesia to publish sustainability reports with a two-year preparation period (Gunawan et al., 2022; Halimah et al., 2020).

Although sustainable disclosure practices have been a concern in the private sector, something similar has not happened in the public sector. Until now, the only agency that has published a sustainability report is the Indonesian Audit Board (BPK). BPK has used the GRI standard in its sustainability report, presented in an index table (BPK, 2021). In addition, the SDG Achievement Implementation Report is published by the Ministry of National Development Planning/National Development Planning Agency (Bappenas), which presents the progress of SDG achievements within Indonesia but does not refer to specific agencies.

3. RESEARCH METHODOLOGY

This research uses the scoping review method, which aims to collect information from previous research on sustainability disclosures and continues by analyzing the context relevant to the objectives and scope of the research (Dinarjito & Ahmar, 2023). The author explored pertinent literature sources using an independent search engine via the Publish or Perish and Google Scholar tools. As an output, the author obtained 172 papers related to GRI 100. The literature study covers various research methods and is relevant to the research topic. Articles from various international and national journals

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have reviewed the motivations, impacts, and determinants for a business entity in implementing sustainability disclosures. The results of the information collected are then compared and linked to the development of sustainability reporting in the public sector in Indonesia. In addition, this research also uses theoretical triangulation that compares relevant theoretical perspectives as a basis for understanding the issues being analyzed.

4. RESULT AND DISCUSSION

Management's Role in Sustainability Aspects

Management is crucial in all aspects of an organization's sustainability disclosure. According to García Martín & Herrero (2020), management plays a role in developing environmental, ethical, and social responsibility. According to Jørgensen (2008) and Crifo et al. (2019), the company's performance in carrying out sustainability management and disclosure is determined by management's internal will and ability to generate change. However, more than the function of management is required. All parties must work together to maximize corporate responsibility disclosure for environmental, social, and economic elements.

Management can employ a range of measures that it thinks are acceptable to foster corporate accountability in running and revealing its sustainability performance. Making sustainable performance one of a company's key performance indicators (KPIs) can be one of those strategies (Hristov & Chirico, 2019). KPI will notify all employees about what it believes is vital for the organization. Furthermore, developing CSR committees might be an alternative technique to using KPIs. The CSR committee will encourage and report on the company's sustainable performance.

Private Sector Motivation in Sustainability Reporting

The implementation of sustainability disclosures today is significantly driven by the increasing interest of investors in the disclosure of corporate non-financial performance, not exceptionally on sustainability aspects (Eccles et al., 2011). Accordingly, Sumiyati & Suhaidar (2020) pointed out that the sustainability report provides investors with more in-depth and helpful firm information and rationality in investment decision-making. It gives a business entity more incentive to participate in creating sustainability reports.

In research done by Latifah & Luhur (2017), Kurniawan et al. (2018), and Pujiningsih (2020), the influence of sustainability disclosure on a company's rising value was determined to be favorable. De Klerk et al. (2015) assert that increased corporate CSR disclosure is related to higher stock prices. It encourages business management to comply with the needs of investors for transparency and trustworthiness. This stipulation can refer to the legitimacy theory, which highlights the importance of possible profitability or survival as the main driving force behind sustainability reporting (Deegan, 2014).

The results above further support Hughes' (2000) explanation that businesses with high pollution levels will face monetary consequences from the market. According to another result by Chapple et al. (2013), businesses that produce large amounts of CO_2 may lose 6.75% of customer interest. It demonstrates how the effects of firm

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capitalization on the capital market significantly impact the motivation to reveal sustainability to the private sector.

Other studies also indicate extra incentives for businesses to provide sustainability-related information. For instance, Cowan & Deegan (2011) discovered that because of a database on the National Pollutant Inventory, Australian businesses willingly participated in preparing sustainability reports. Luo et al. (2012) state that businesses with a direct economic impact and intensive greenhouse gas production are also subject to greater social pressure.

Global corporate sustainability performance ratings from data providers like MSCI, Refinitiv, Bloomberg ESG Disclosure Score, and Sustainalytics ESG Score are also used to supplement the most recent capital market practices (Widyawati, 2021). Furthermore, an SRI-Kehati index offers investment selection guidelines to organizations considering ESG factors. Additionally, to direct participation in firms and sustainability reporting, the Wong & Petroy report (2020) views ESG ratings as the most trustworthy source of information about a company's sustainability performance.

Overall, it can be suggested that corporations' disclosure of sustainability issues through integrated reporting can lead to enhanced organizational resource capacity, increased accountability, and more sustainable societies. It can also promote ethical culture and internal organizational ideals. Public organizations should utilize it as a crucial resource and orientation for implementing sustainability reporting.

Best Practice at a Global Level

A worldwide instrument relating to sustainability reporting and its implementation at the local, national, and regional levels was established by the United Nations Conference on Environment and Development (UNCED) held in Rio de Janeiro in 1992. Kumar et al. (2018) stated that UNCED requires governments and businesses to disclose information on the circumstances and environmental impact of their operations. It adheres to the principle that everyone has the right to appropriate access to information about the environment owned by public authorities on a national level (Perez & Sanchez, 2009). Lastly, the Kyoto Protocol and the Paris Agreement require nations to restrict their emissions and combat global warming (Maamoun, 2019; Vicedo-Cabrera et al., 2018).

As a result, governments must act quickly to uphold their obligations as a public entity by using sustainability reports. At least 114 public institutions have used the GRI standard for sustainability reports to inform stakeholders about their efforts and advancements in sustainability. Domingues et al. (2017) revealed that sustainability reports from the canton of the Swiss state can show the dedication of public organizations to sustainability as well as enhanced openness and accountability. Therefore, to realize efforts towards good governance, public institutions must engage in sustainable reporting. The BPK sustainability report can be the foundation for ongoing reports in Indonesia. BPK's ongoing reports have guided GRI standards by covering nine substantive themes and taking into account relevance to BPK's activities and functions (BPK, 2021).

Opportunities and Challenges of Public Sector Sustainable Disclosure

Governments can strengthen transparency and accountability on managed sustainability issues by publishing the SDGs Implementation Report. According to Dube et al. (2021), real-time data collection and transparent monitoring methods are essential

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to indicate commitment to the sustainability agenda to provide accountability and transparency towards the SDGs. Through consensus-building and transparent information exchange, governments may also encourage the empowerment of all stakeholders to participate in and contribute to the realization of the SDGs in support of good governance.

Moreover, governments that prioritize sustainability will create possibilities to encourage private-sector sustainability disclosure. Steurer (2010) agreed that governments can improve sustainability development and CSR in the business sector by serving as role models in reporting sustainability performance. Governments will profit in the future from the voluntary achievement of government policy objectives connected to sustainability efforts by the private sector. Haufler (2013) noted that the aims include sustainability, environmental protection, and human resource development goals.

Concerning the sustainable governance theory stated in the literature study, public bodies can immediately pursue its development and application by submitting sustainability reports. In Indonesia, the setting of sustainability reporting to government agencies is still in its early stages. Hence, referring to a stakeholder or institutional theory is more acceptable. Deegan's (2014) stakeholder theory will motivate government agencies to produce sustainability reports by prioritizing stakeholders' orientation, particularly the public. Based on (Deegan, 2014), the institutional theory will encourage diverse public institutions to monitor each other and emulate the steps of other institutions in issuing sustainability reports.

Nevertheless, the beginning of sustainability reporting to government bodies is less relevant to the legitimacy argument. Rather than explaining a higher accountability commitment, this theory explains how an entity may prolong its existence and motivation to make additional profits (Deegan, 2014). BPK has also stated openly that one of its goals in producing sustainability reports is to serve as a model for other institutions in developing transparent and long-term organizational governance. This goal has drifted away from the original goal of launching sustainability reports in the public sector, which placed less emphasis on legitimacy.

The disclosure of sustainability to the public sector remains difficult despite its underlying benefits, prospects, and theories. There is currently no public-sector-specific sustainability reporting requirement. Standards and frameworks for sustainability reporting in the private sector are deemed insufficient to meet the public sector's needs for sustainability reports. The two sectors are divided by differences in attitude, responsibility, and motivation (Jones, 2010). Global organizations and standard-setting agencies must address this situation by adopting sustainability reporting guidelines for public-sector entities. Jones (2010) also stated that national roles and priorities and public sector characteristics that differ from the private sector should serve as guidelines for developing a sustainability reporting framework, measurement standards, and assurance of sustainability reports in the public sector.

5. CONCLUSION

Public sector agencies have an open opportunity to apply sustainability reporting and the growing need for government accountability and transparency. Disclosure of sustainability information within the public sector is known to have several opportunities and constraints to be realized. Internal organizational consolidation plays a significant

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role in encouraging responsibility and achieving sustainability performance based on the priority of material topics. The private sector's motivation in disclosing sustainability aspects can also be a reference for government agencies, especially in reflecting accountability and transparency to stakeholders more comprehensively. Sustainability disclosure practices will also be a form of commitment to reduce emissions by the government under international agreements that have been reached.

Furthermore, the benefits of publishing a sustainability report for the government are that it will demonstrate better governance practices, encourage the private sector to improve its sustainability performance, and be relevant to best practices and sustainability governance principles. However, the biggest challenge of sustainability reporting in the public sector is that the reporting criteria have not yet been formulated. Moreover, the different characteristics and objectives of the information to be presented mean that the government must distinguish the reporting standards used by the private sector.

Concerning sustainability reports in government agencies that have not been implemented, this study has limitations in the form of author subjectivity that focuses on reviews that show potential if there is a joint commitment to disclose sustainability information. Future research is expected to examine the relevance of sustainability information presented by government agencies to support good governance practices using triangulation methods through interviews/focus group discussions (FGDs) to obtain more comprehensive research results. This hope can be realized along with the increasing awareness of government parties in disclosing sustainability information in the future.

The results of this study are expected to encourage more massive implementation of sustainability disclosures by various public institutions and increase public awareness of sustainability practices and performance in the public sector. The government and standard setters, especially the Ministry of Finance and the Government Accounting Standards Committee (KSAP), are encouraged to develop sustainability accounting standards for the public sector to realize the principles of good governance in Indonesia.

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