

## STAKEHOLDERS' PRESSURE OF LONG TERM SUSTAINABILITY OF DRINKING WATER COMPANY

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*This paper presents an overview of and discussion on the current approaches to corporate sustainability with a main discussion on the stakeholder pressure for the drinking water company. Good corporate governance is associated with increased transparency and clear and informative financial reporting. The fast widening role of corporate responsibilities is to include corporate social responsibility (CSR), where corporate sustainability is being part of it and needs to be disclosed in the financial reporting. Corporate sustainability stipulates the needs that future generation should be left or at least no worse off than the current generations (Said et al, 2005). As being sustainable for companies could increase their competitiveness in the market, therefore CSR and corporate sustainability could not be separated in the disclosure of financial statements. Comparing physical and economic sustainability is another way of measuring corporate sustainability especially when we measure the sustainability of a company having the basis on the utilisation of natural resources such as mining, energy, fishery, forestry, pulp and paper, water, and palm-oil plantation, etc. Implications on financial reporting of a drinking water company are discussed in anticipating the stockholders pressure on long-term sustainability especially for water industry.*

### Introduction

This study provides an overview of and discussion on the current approaches to corporate sustainability with a main discussion on the stakeholder pressure for long-term sustainability in the drinking water company. This paper is written with the aim to explain the

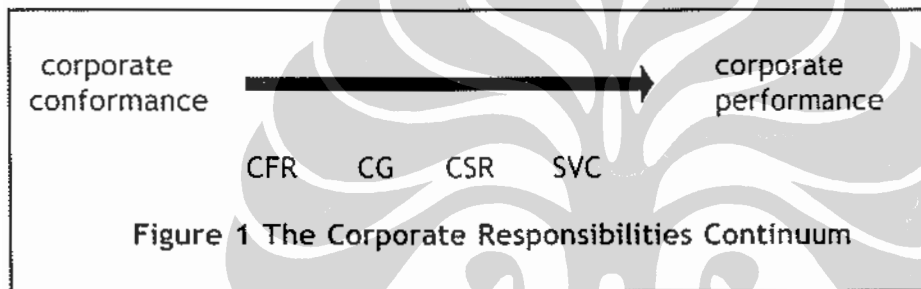
high need in disclosing corporate sustainability in the financial reporting of the companies due to the fast widening stakeholder pressure on corporate responsibilities where corporate sustainability is being part of it especially for companies utilizing natural resources (such as water company). To achieve water sustainability, physical and economic sustainability of the water should be maintained where economically water should be used efficiently and there should not be any gap between the values and the costs of the water (Said et al, 2005).

Good corporate governance (GCG) of the company is associated with increased in transparency and articulate financial statements (Mallin, 2002), since poor corporate governance and misleading financial statements could cause poor corporate social responsibility (CSR) (Bhimani and Soonawalla, 2005). In order to be sustainable, i.e. to be able to continue over the long term, all critical components of its systems of activities must also be sustainable, while also recognizing limitations within which these systems must operate (Alan AtKisson In order to improve company operation with the prime objective to sustain its capability to compete in its business environment (Rahendrawan, 2006) and in order to increase competitiveness in the market by being environmentally responsible are the main item which are discussed in this paper where the needs for companies to disclose the above matters in their financial reporting are high.

Structure of this paper is divided into 4 (four) main sections, first it discusses on the background and on the importance of corporate sustainability, then it discusses on the Corporate Responsibilities Continuum explaining the difficulties for standard setters in preparing standards for the entities due to the dynamic movement of orientations of stakeholders as well discussing on the differences between sustainability and sustainable development. Third part of the paper discusses the strategies in corporate sustainability and its measurement. Last part of the paper discussed some implications to corporate disclosures to reporting with regard to corporate sustainability.

## The Corporate Responsibilities Continuum, Sustainability and Sustainable Development

Figure 1 below explains the difficulties in establishing the standards of compliance as stakeholders move their orientations from Corporate Financial Reporting (CFR) to Corporate Governance (CG) to Corporate Social Responsibility (CSR) where corporate sustainability is believed to be part of it and finally to Stakeholder Value Creation (SVC) (adapted from Bhimani and Soonawalla, 2005).

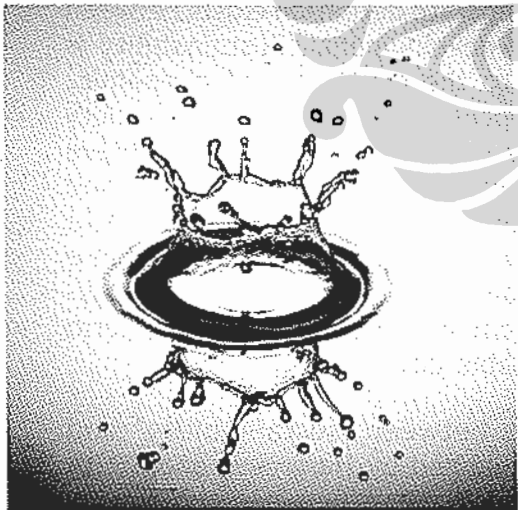


Said et al (2005) mention that sustainability stipulates the needs that future generation should be left or at least no worse off than the current generations. A separate definition exists between 'sustainability' and 'sustainable development'. Sustainability is defined as a concept relating to the continuity of economic, social, institutional and environmental aspects of human society while sustainable development is defined as an effort to achieve a higher quality of life for all level of people. As Wilson and Tyrchniewicz (1995) mention that sustainability have environmental, physical, and economic requirements. Some practitioners use the term sustainable development to closely-related with physical development and prefer to use the term 'sustainability' than 'the sustainable development'.

There are some common ideas between 'sustainability' and 'sustainable development' as explained by Hargroves and Smith (2005) despites there are some differences between the two:

- § dealing vigilantly with risk and uncertainty;
- § ensuring appropriation in valuation, appreciation and restoration of nature;
- § integrating economic, social and environmental policies and activities; and
- § a commitment to best practices.

Significant attentions have been attributed to corporate sustainability for number of reasons. Schaltegger et al (2003) state that large corporations that seek to gain a competitive advantage started to promote their long-term corporate sustainability as it is seen as a way to differentiate their corporations from their competitors as well their active promotion in reducing related costs of undertaking business and risks for their operation in the future. This can be seen on the greater tendency in a developed country to environmental management risks through voluntary means by effectively and continuously communicated potential risks to the stakeholders as seen to be an important way to minimize the damage before it goes further.



Despite the above difficulties for establishing the standards for standard setters, and due to the high awareness given not only by the entities to continuously and effectively communicate potential risks to the stakeholders so that not to make the damage to go further a case for companies utilizing natural resources like water company and the pressure from the stakeholders for long-term sustainability of the companies, the demand and

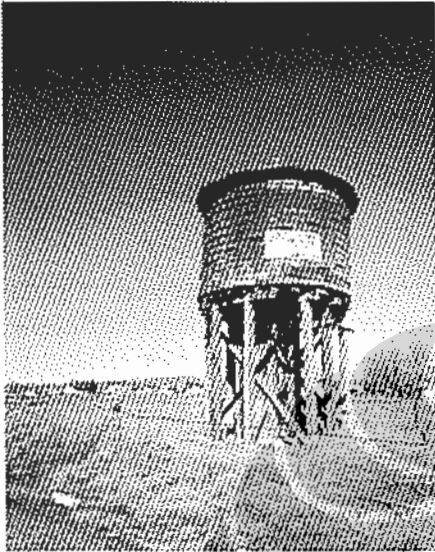
the pressure to disclose corporate sustainability and/or sustainable development are greater and greater.

Some strategies for corporate sustainability and how to measure it

Schaltegger and Burritt (2005) mention several following strategies for corporate sustainability:

- § *Efficiency strategy*, by improving the ratio between inputs used to produce a desired output by becoming more efficient using fewer materials and energy;
- § *Consistency strategy* which aims at changing the quality of material and energy flows by replacing persistent and other non-natural substances with substances that are part of the natural ecological material cycles for centuries.
- § *The sustainability market buffering strategy* which is based on corporate behaviour and is oriented towards environmental impacts and societal influences that threaten existing businesses.
- § *The sustainability cost strategy* which is directed towards the market and internal company processes.
- § *The sustainability differentiation strategy* which is based on proactive behaviour and it is oriented towards the market.
- § *The sustainability market development strategy* which has social and proactive characters in order to attempt creating and enlarging areas where sustainable products are more competitive in the market.

An investigation link between environmental or social performance to economic performance requires greater thought about the characteristics of the link. Apart from the 7 (seven) strategies that has been developed by Schaltegger and Burritt (2005), Said et al (2005) mentions that comparing physical and economic sustainability is another way of measuring corporate sustainability



especially when we measure the sustainability of a company having the basis on the utilisation of natural resources such as mining, energy, fishery, forestry, pulp and paper, water, and palm-oil plantation, etc. From a water resources management perspective, environmental sustainability stipulates that physical resources should be maintained while economic sustainability stipulates that cost and value of water must be balanced. In an ideal economic sustainability, it requires that the value and

the cost should balance each other, the gap between cost and value indicates the lack of economically sustainable use (Rogers et al, 1997).

Applying the above strategies to a drinking water company for water sustainability, water should be used efficiently (efficiency strategy) and there should not be any gap/lack between cost and benefit of water (economic sustainability). Water quality is important as it may limit the benefit/value of water. Continuous pressure from stakeholders should be involved so that continuous evaluation on water quality should take into account in the economic impacts (economic sustainability).

Said et al (2005) mention that physical and economic sustainability can be measured in terms of strong, weak, or does not exist water sustainability. If the water resources are physically and economically sustainable, the result is strong water sustainability and in the reverse if the physical sustainability is strong while economically is unsustainable, the result is weak water sustainability which could be increased by optimizing the cost and value of water. Scarcity in water supply exists whenever physically

the water is limited / scarce (low physical sustainability on water supply) while the resources are economically sustainable (cost and value are balanced to each other).

#### Conclusion - Implications for Company's Financial Reporting

Besides four main financial statements as requested by both PSAK and IFRSs that have to be prepared by an entity, footnotes and supplementary schedule constitute the corporate financial report. As described in Pernyataan Standar Akuntansi Keuangan (PSAK) 1 general purpose financial reporting is a financial report which is aimed to fulfil common needs most of the users of the financial statement. Therefore, relevant and significant information should be included in the financial statement.

In the absence of standards with regard to corporate sustainability and/or sustainable development and based on the fact of widening role of corporate responsibility and on the fact of increasing pressure of long-term sustainability for companies utilizing natural resources, the existence of the standards with regard to corporate sustainability are important. Investors and potential investors need to be informed transparently and clearly about the long-term sustainability of the companies, therefore, drinking water company need to disclose their long-term strategies for water sustainability not only in terms of physical and economic sustainability (efficiency and sustainability for cost strategies) but also several strategies which need to be developed such as the sustainability market development strategy, the sustainability differentiation strategy, the sustainability market buffering strategy and consistency strategy as has been explained above.

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