

## **Sustainability Reporting Guideline for Small Medium Enterprises (SMEs): Case Study from 25 SMEs in Indonesia**

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### **Abstract**

*The sustainability reporting trend has been increasing in Indonesia for the past few years, with the government's plan to make sustainability reporting mandatory for all companies, including Small and Medium-sized Enterprises (SMEs) that have significant impacts on national economics. So far, there are no specific guidelines for SME's sustainability report. There are many indicators in the global sustainability reporting guidelines that are not suitable for SMEs since they are limited in the resources and knowledge they can disseminate. Therefore, this study aims to develop a sustainable reporting guideline for SMEs. This study analyzes the sustainable development reporting practices of Indonesia and other countries through literature review, interviews and surveys, in order to build a sustainable development reporting guide for SMEs. The reporting guidelines recommended in this study contain 25 indicators: 12 general information indicators, 1 economic indicator, 6 environmental indicators, and 6 social indicators. Based on a survey of 25 small and medium-sized enterprises, this guideline is suitable for preparing SMEs' sustainability reports.*

**Keywords:** *Sustainability Reporting guideline, Small Medium Enterprises, Indonesia*

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## **INTRODUCTION**

Sustainable development is "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (WCED, 1987). Corporates and business organizations play significant roles in contributing to sustainable development through their business activities. Sustainability practices in businesses are known as "triple bottom line" or 3P, namely People, Planet, Profits (Elkington, 1997). These contributions will then be communicated to their stakeholders through sustainability reports.

Efforts to achieve sustainable development are not only the responsibility of large companies or multinational companies, but small and medium-sized enterprises operating only at the regional level can also contribute. Considering the number of SMEs and their role in the Indonesian economy, the contribution of SMEs can even be said to be crucial. According to data from the Indonesian Central Bureau of Statistics (BPS), there were 61.7 million SMEs in 2016, 62.9 million SMEs in 2017, and 64.2 million SMEs in 2018 (Christy, 2021). Based on recent trends, the number of SMEs in Indonesia is likely to continue to increase. According to data from the Indonesian Ministry of Small and Medium-sized Enterprise Cooperation (KUKM), the absorptive capacity of small and medium-sized enterprises accounts for 97% of the total labour force and their contribution to gross domestic product (GDP) is 61.1 (Nainggolan, 2020).

Like large companies, SMEs can also have a significant impact on society and the environment through the cumulative impact of many small activities (Arena & Azzone, 2012). Considering the total amount of labour absorbed by SMEs, various social issues and employee rights should be the most concerning issues for business owners. Furthermore, the large number and increasing number of SMEs indicates that the business activities of SMEs will have a significant

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impact on internal and external stakeholders. Therefore, SMEs must disclose information related to economic, social and environmental impacts and their positive and/or negative contributions to the achievement of sustainable development.

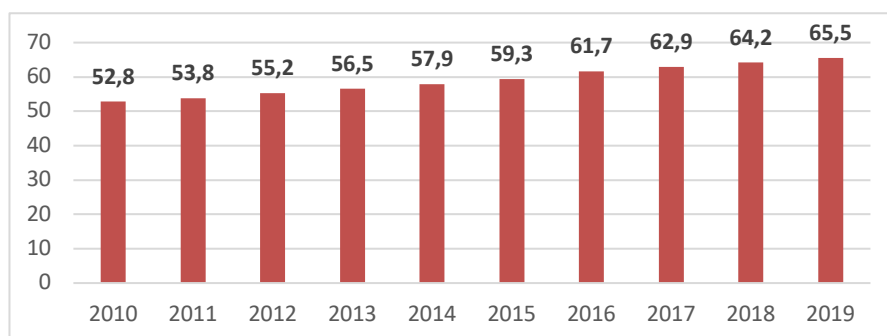
By conducting sustainability reporting, SMEs can develop risk management, improve the performance of responsible business practices, and gain new opportunities in the global marketplace. Sustainability reporting can also help SMEs integrate sustainability into their businesses and pay more attention to the long term (GRI, no date). The long-term sustainability of SMEs businesses can be considered essential, in which SMEs sustainable growth could potentially lead to the stability of the national economy and the achievement of national sustainable development targets (Das, Rangarajan, & Dutta, 2020). However, SMEs face many challenges in implementing sustainability reporting, one of which is the lack of appropriate guidelines/standards. The Global Reporting Initiative (GRI) Sustainability Reporting Standard, the standard most used by companies around the world (Threlfall *et al.*, 2020), requires reporting organizations to perform various tests and disclosures of complex data, such as measuring emissions and the amount and type of waste generated during the reporting period.

However, SMEs with limited resources will not be able to perform that measurement (Clarke-Sather *et al.*, 2011). Therefore, there is a need for a simpler sustainability reporting guide that is tailored to the capabilities of SMEs. A Sustainability Reporting Guidelines for Indonesian SMEs will truly help SMEs understand and communicate their economic, environmental and social information. Therefore, this study assessed the appropriate indicators that SMEs should disclose in order to develop sustainability reporting guidelines for SMEs.

## LITERATURE REVIEW

According to the Organization for Economic Cooperation and Development (OECD), SME is an independent and unaffiliated company that employs a number of employees in certain limits that varies for each country (OECD, 2005). Around 90% of businesses globally are SMEs (GRI, 2015), therefore SMEs play an important role, especially in developing countries, as the main driver of economic growth and job creation.

In the past ten years, the number of SMEs in Indonesia has been increasing. According to data from Badan Pusat Statistik (2020), the Indonesian Central Bureau of Statistics, as shown in Figure 1, there are 52.8 million SMEs in Indonesia. This number has been rising steadily until it reached 65.5 million units in 2019. Based on this trend, they predict that the number of SMEs in Indonesia will continue to increase in the next few years.



**Figure 1.** SMEs in Indonesia (in a million units)

The increase in the number of SMEs has also contributed to the development of the national economy. As shown in Figure 2, the contribution rate of SMEs to the national GDP reached 57.58% in the last 10 years, of which the highest contribution rate was in 2019, representing 60.3% of the national GDP.

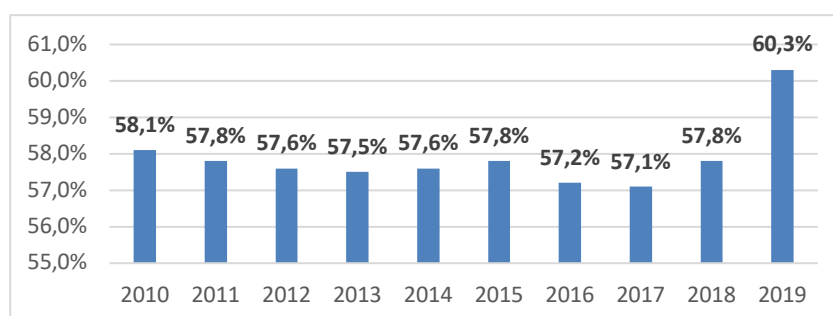


Figure 2. Contribution of SMEs to Indonesia's GDP

Source: Kementerian Koperasi dan Usaha Kecil dan Menengah

Considering the key existence of SMEs in the development of the national economy, the Indonesian government has made various efforts to support the commercial activities of SMEs. These efforts include providing commercial licensing procedures for SMEs through "one-off submission" (OSS), reducing licensing fees, simplifying tax management, providing business training and assistance for start-ups, encouraging SMEs to export, and providing special projects for various SMEs Grant development plan (Kementerian Keuangan, 2020).

### Sustainability Reporting by SMEs

There are still few studies on the sustainability report of SMEs, and many studies only focus on the practices of large companies (Das, Rangarajan, & Dutta, 2020; Das, 2019; Graafland and Smid, 2015). The relatively small number of discussions on this topic may be because many people believe that the development of SME sustainability reports is slowing down (Shields & Shelleman, 2015). This may be due to the lack of external pressure from SMEs, such as the lack of regulations requiring SMEs to provide sustainability reports or the lack of resources for SMEs to compile sustainability reports (Bos-Brouwers, 2010; Masurel, 2007; Schaper, 2002).

Another challenge for sustainability reporting is the perception that sustainability reporting is a difficult, time-consuming and expensive process (Fenwick, 2010). Organizations should not consider sustainability reports as an additional cost but as part of the organization's strategy as an added value for performance and organizational competitiveness (Džupina & Mišún, 2014). However, this is especially a challenge for SMEs that do not have the appropriate structure or management system to integrate sustainability reports into the organization's business strategy (Kiron *et al.*, 2013).

According to the GRI Sustainability Disclosure Database, as of June 2021, SMEs only contributed about 12% of all sustainability reports in the database, with the rest coming from large organizations and multinational companies. The total number of small and medium-sized enterprises that publish sustainability reports in accordance with the GRI guidelines worldwide is 3,234, of which there are 44 small and medium-sized enterprises in Indonesia (GRI Database, 2021).

SMEs have several limitations that are generally do not exist in large companies, such as limited funds, fewer and less experienced employees, lack of long-term planning, and limited understanding of sustainability practices (Massa, Farneti, & Scappini, 2015; Loucks, Martens, & Cho, 2010; Parker, Redmond, & Simpson, 2009). Furthermore, existing sustainability reporting indicators and guidelines require that certain aspects of reporting are often difficult for SMEs because they involve many complex and complex measurement systems and procedures (Van der Walt, 2018; Arena & Azzone, 2012; Plugge & Wiemer, 2008).

### **Sustainability Reporting Guidance for SMEs**

van der Walt (2018) found that GRI has become one of the most used guidelines for SMEs. The study analyzed the sustainability reporting practices of SMEs and found that most of them use GRI as a guide for reporting. GRI has also published a manual for SMEs that presents sustainability reporting practices and the steps required to prepare sustainability reports using the GRI G4 guidelines (GRI, 2014; Tschopp & Nastanski, 2014). However, this manual does not provide specific reporting guidelines for SMEs, it only presents the concepts and procedures of sustainability reporting for SMEs that are not familiar with the practice of sustainability reporting.

GRI (2014) exposes the various internal and external benefits of SMEs through sustainability reporting. Internal benefits, such as 1) Allowing the organization to formulate a vision and strategy for sustainable development; 2) Improve the management system and internal processes, and establish the organization's sustainable development goals; 3) Identify the strengths and weaknesses of the organization, and 4) Improve employee awareness and motivate them to achieve sustainability targets; while the external benefits are: 1) Improving the reputation of the organization and gaining the trust of interested parties; 2) Promote financing needs through sustainability performance, where sustainability issues have become investors / One of the main considerations for creditors; 3) Achieve transparency and good relations with stakeholders; 4) Obtain a competitive advantage through sustainable performance.

The GRI guidelines are considered to be too complicated to implement for SMEs, especially small and micro enterprises with limited funds and resources. A study by van der Walt (2018) showed that the majority of SMEs disclose GRI indicators on "direct economic value generated and distributed". Other studies also indicated that the GRI indicators most reported by SMEs are customer satisfaction, product quality, recycling practices, efficient use of materials, water and energy, environmentally friendly products, efforts to mitigate environmental impacts and employee rights, such as occupational health. and safety, employee training and other employment policies (van der Walt, 2018; Jansson *et al.*, 2017; Džupina & Mišún, 2014; Revell, Stokes, & Chen, 2009; Plugge & Wiemer, 2008). In other words, it is easier for SMEs to report indicators related to daily business activities because these data are often readily available (Plugge & Wiemer, 2008).

### **RESEARCH METHOD**

This study is qualitative research, using a descriptive method. According to Sekaran and Bougie (2016), descriptive methods are "studies that are often designed to collect data that describe the characteristics of persons, events, or situations." Descriptive methods allow researchers to (1) understand the characteristics of a certain group in a certain situation; (2) think about all aspects of a certain situation systematically; (3) provide ideas for future research; (4) make decisions. The data used in this study are primary data and secondary data. According to Sekaran and Bougie

(2016) primary data is such data that the researchers gather first hand for the specific purpose of the study.

The primary data used in this research are Surveys and Interviews. Secondary data is data that already exist and do not have to be collected by the researcher (Sekaran & Bougie, 2016). Secondary data were obtained from literature related to research topics and SMEs' sustainability reports. The data processing technique in this study uses content analysis. Content analysis is an observational research method that is used to systematically evaluate the symbolic contents of all forms of recorded communications (Sekaran & Bougie, 2016). The subject of this study is 25 SMEs in Indonesia. The selection of the 25 SMEs in this study was carried out in collaboration with BEDO. BEDO is a not-for-profit Business Support Organization (BSO) dedicated to supporting the national and international strategies of 4,444 Indonesian SMEs. BEDO recommends that 25 SMEs from all over Indonesia who understand sustainability issues or are interested in exploring sustainability issues should sample in this study

This study includes several stages: First, prepare a bibliography of sustainable development reporting guidelines for global SMEs. Next, analyze the indicator disclosures in the SME sustainability report. Afterwards, prepare a framework for the preparation of sustainability reports for Indonesian SMEs.

In order to facilitate data collection for sustainability reports, we submitted a Google form containing questions on the 25 indicators proposed in the reporting guidelines, such as: gathering information on indicator GI1 (name of the organization), questions The Google form is: what is the name of your organization and so on. In addition, we conducted interviews with SMEs. After that, we helped SMEs compile sustainability reports based on the information from the Google form and the interviews. After the SME Sustainability Report was finalized, we conducted a survey to collect feedback from SMEs on the guidelines for sustainability reporting and began to analyze the data and draw conclusions.

## **FINDINGS AND DISCUSSION**

We have collected and analyzed 55 SME sustainability reports from several countries in Asia to make the guidelines. The selection of this indicator is based on the following considerations: first, the percentage of disclosure by SMEs in Asian countries is 50% or more. This means that these indicators are considered important by most SMEs in Asia. The 55 SME sustainability reports collected from many Asian countries were analyzed to formulate guidelines. The selection of this indicator for inclusion in the guidelines is based on the following considerations: First, the proportion of information disclosure of SMEs in Asian countries is more than 50%. This means that most SMEs in Asia regard these indicators as important.

The second consideration is: how easy it is for SMEs to obtain and disclose this information in their sustainability reports. It is expected that this guideline will inspire SMEs to start paying attention to the sustainability issues of their companies and start to compile sustainability reports. This guide is divided into four categories: general information, economic, environmental and social indicators. We explained each indicator to the SMEs. Table 1 below shows the disclosure percentage of general information indicators in the SMEs' sustainability report.

**Table 1.** Percentage of General Information Indicator Disclosure in SME Sustainability Reports

Category	Indicator Code	Indicator Name	Number of SME	Disclosure Percentage
General Information	GI1	Organization Name	25	100%
	GI2	Activities, brands, products and services		100%
	GI3	Location of headquarters and operations		100%
	GI4	Ownership and legal form		76%
	GI5	Markets served		52%
	GI6	The scale of the organization		80%
	GI7	Information on employees and other workers		52%
	GI8	Values, principles, standards, and norms of behaviour		92%
	GI9	Executive-level responsibility for economic, environmental, and social topics		100%
	GI10	List of stakeholder groups and approach to stakeholder engagement		100%
	GI11	List of material topics		100%
	GI12	Contact point for questions regarding the report		88%

Source: processed by researchers.

It can be seen in Table 1 that most of the general indicators related to the information contained in the guide have been disclosed in the SME sustainability report. The indicators GI5 (services market) and GI7 (information on employees and other workers) are the two lowest indicators disclosed in the SME sustainability report. Among the 25 SMEs that disclose information related to these two indicators, only 52%. We also analyzed that in the sustainability report, the completeness of the information disclosed by SMEs in the sustainability report varies greatly. Some SMEs disclosed complete and extensive information with full documents, while some SMEs only disclosed very little information in their sustainability reports.

SMEs also disclosed other information related to the general information mentioned in the guideline, such as sustainability report reporting period, reporting period, and reporting claims based on GRI standards. In addition, data on the percentage of economic indicators disclosed in the SME sustainability report are presented in Table 2 below.

**Table 2.** Percentage of Economic Indicator Disclosure in SME Sustainability Reports

Category	Indicator Code	Indicator Name	Number of SME	Disclosure Percentage
Economy	EC1	Direct economic impacts	25	80%

Source: processed by researchers.

It can be seen in Table 2 that the majority (80%) of SMEs revealed direct economic impact in their sustainability reports. We asked several questions related to this indicator, such as the

nominal amount of revenue, general and administrative expenses, salary expenses, transportation expenses, fuel and electricity expenses, Internet, telephone and water expenses, and other operating and non-operating expenses. Most SMEs respond to estimated amounts rather than the actual amount of revenues and expenses, while some SMEs do not specify the expenses incurred in their sustainability reports. In addition to the information mentioned in the guideline, SMEs also disclose other information related to economic information, such as financial assistance from the government, infrastructure development, major indirect economic impact, procurement from local suppliers, anti-corruption policies.

Despite the economic information, data on the percentage of environmental indicator disclosure in SME sustainability reports are presented in table 3 below.

**Table 3.** Percentage of Environmental Indicator Disclosure in SME Sustainability Reports

Category	Indicator Code	Indicator Name	Number of SME	Disclosure Percentage
Environmental	EN1	Materials used by weight or volume	25	28%
	EN2	Energy consumption within the organization		64%
	EN3	Reduction of energy consumption		76%
	EN4	Water consumption		44%
	EN5	Recycling and reuse of water		28%
	EN6	Waste by type and disposal method		84%

Source: processed by researchers.

In terms of water use, 44% of the 25 SMEs disclosed their estimated monthly water consumption, while only 28% of the 25 SMEs recycle or reuse water. In terms of waste disposal, most (78%) SMEs have separated waste according to its type and disposed of it according to the type of waste. In addition to the content mentioned in the guide, SMEs also disclose other information related to environmental information, such as groundwater extraction, municipal water supply or other public or private water supply services, site restoration, reuse or recycling of waste generated, selection Suppliers meeting the following conditions take environmental issues into consideration. Data on the percentage of social indicators disclosed in the SME sustainability report will be listed in Table 4 below.

**Table 4.** Percentage of Social Indicator Disclosure in SME Sustainability Reports

Category	Indicator Code	Indicator Name	Number of SME	Disclosure Percentage
Social	SO1	New employee hires and employee turnover	25	8%
	SO2	Benefits and remuneration		100%
	SO3	Occupational health and safety		64%
	SO4	Training and Education		48%
	SO5	Assessment of the health and safety impacts of product and service categories		28%

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SO6	Incidents of non-compliance concerning the health and safety impacts of products and services	16%
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Source: processed by researchers.

It can be seen from Table 4 that the SO1 disclosure rate is the smallest, only 8%. This is because some SMEs have a small number of employees, and the employee turnover rate is not calculated. For indicator SO6, the percentage of disclosure is 16%. 16% of the 25 SMEs reported incidents in their sustainability reports. In the sustainability report, 28% of the 25 SMEs disclosed SO5. Some small and medium-sized enterprises (48%) also pay attention to the quality of the workforce, as evidenced by training activities to improve employee performance based on SO4 indicators. The majority (64%) of SMEs have also been concerned about the occupational health and safety of their employees.

All SMEs have disclosed information related to SO2 indicators in their sustainability reports. SMEs also disclose another information related to social information in addition to what is mentioned in the guidelines, such as minimum notification period regarding operational changes, types of work accidents and rates of work accidents, workers with a high risk of accidents or dangerous diseases related to their work, prevention and mitigation of occupational safety and health impacts that are directly related to business relationships, diversity of governance bodies and employees, incidents of discrimination and corrective actions are taken, child labour, compulsory labour, operations with local community involvement, impact assessment, and program development.

We also analyze the feedback obtained from SMEs regarding the guidelines. More than 50% of SMEs think that the new sustainability reporting guidelines are fairly easy to understand, and they are willing to make a sustainability report again in the following year. Some of the inputs from SMEs are as follows: (1) The number of questions contained in the questionnaire (the number of indicators that must be filled in by SMEs) is quite a lot. Some small and medium-sized enterprises require that the number of questions is reduced in order to complete them more easily and faster; (2) Some issues are considered too difficult to obtain data on the size of SMEs, such as the calculation of waste generated.

## CONCLUSION

The existing sustainability reporting guidelines have many indicators, which are difficult to disclose for SMEs with generally limited resources and knowledge. Therefore, the indicators that we formulate in this guide are less than the existing sustainability reporting standards, which must be disclosed in the SME sustainability report. The guideline only contains 25 indicators that are recommended to be disclosed in the SME sustainability report: 12 general information indicators, 1 economic indicator, 6 environmental indicators, and 6 social indicators. According to the survey results, the majority (more than 50%) of SMEs believe that the guidelines are fairly easy to implement. Most SMEs (over 50%) also stated that they would use the guide to prepare another sustainability report next year.

The sustainability reporting guidelines have been applied to 25 SMEs in Indonesia. Among the 12 indicators related to general information, more than 50% of SMEs have disclosed in the sustainability report. Economic indicators have also been disclosed by all SMEs in their sustainability reports. For environmental indicators, the disclosure rate of EN1 (Materials used by



weight or volume), EN4 (Water consumption), and EN5 (Recycling and reuse of water) are less than 50%. This is because SMEs did not observe or calculate these three indicators. For social indicators, the disclosure ratios of SO1 (New employee hires and employee turnover), SO4 (Training and Education), SO5 (Assessment of the health and safety impacts of product and service categories), and SO6 (Incidents of non-compliance concerning the health and safety impacts of products and services) are all less than 50%.

The limitation of this study is that the number of SMEs included in the study is still very small (only 25), and most of them are located on the island of Java. For future research, it is hoped that more SMEs can be adopted and distributed evenly throughout Indonesia in order to obtain more accurate results.

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