CHAPTER II

LITERATURE STUDY

A. Prior Research

The prior researches presented in this section are meant to establish the current knowledge pertinent to the research questions.

1. Putri Indah (2010)

This minor thesis explain about the activities regarding environment management and the implementation of environmental accounting concept in a hospital. Researchers chose the topic because of the impact of externality company inflicted due to operational activities of the company. In practice the hospital showed the form of social responsibility on the environment. It is indicated by the formation of a special installation to run a healthy environmental development program.

2. Vivanti Vida (2010)

This research was analyze the implementation of environmental accounting as a form of responsibility of the company on the environment. As a form of corporate social responsibility toward the environment, PDAM Malang region was done the environmental management through the restoration. Environmental accounting concept was been implemented by PDAM Malang region by entering the restoration cost as the expenses and entered in maintainance account.
All the prior researches presents above in some ways strengthening this research by providing a combination of the implementation of Triple Bottom Line concept through the Corporate Social Responsibility and the environmental accounting report.

B. Triple Bottom Line

1. Definition of Triple Bottom Line (TBL)

A triple bottom line business is a business that incorporates into its business model social, environmental, and financial sustainability, in other words, people, planet, and profit. The triple bottom line, also called “TBL” or “3BL”, is a philosophy of business management and accounting suggests that the traditional accounting and performance reporting framework of a company should be expanded to include its ecological and social impact in addition to its financial performance. The concept of triple bottom line reporting implies that companies are answerable not only to shareholders but to stakeholders, with a stakeholder being defined as anyone or anything affected by the operations of a company (Timothy:2011). The principle of TBL has long embraced the Government of Indonesia. According to act 33 Undang-Undang Dasar 1945 “Earth and water and natural resources contained therein are controlled by the country and reserved for the people welfare”.

2. The Concept of Triple Bottom Line

The financial condition is not only sufficient to guarantee that company value will grow in sustainable way. The sustainability only will
be guaranteed if the company considering the social dimension and the living environment. It has become fact how the around society resistance that emerge to the company that is considered do not concern to the living environment. According to Cooney (2009) stated that green business is efforts done by company to minimize the negative impact of economic activities of company to the community, society, economy and local or global environment by fulfilling the triple bottom line of business principles.

The term of triple bottom line is popularized by John Elkington in 1997 through book of “Cannibal with Forks, the triple bottom line in the term of economic property, environment quality and social justice. Elkington is known as the triggering father of triple bottom line of business in several writings stated that the basic pillars of the business sustainability is the universe or environment (planet), people, and profit. Because of that, if company want its business grows and develops in sustainable way then the three basic pillars should be managed well and in sustainable way (Wibisono, 2007:32-33).

According to Wahyudi (2008:135-140) Elkington extend view point that the company that want sustainability should consider “3P”. Beside profit, the company should consider and involved in fulfilling the people welfare and give active contribution in conserving the environment (planet).
Based on illustration above shows that the relationship between People, Planet and Profit (3P) can not be separated each other, because it has the related matters. When the company just implementing one aspect then the company will face any resistance form internally and externally. This is make the company get difficulties to run their business. The aspect in the triple bottom line such as:

a. Profit. Profit is important element and become the main goals of each business activities. Profit is income addition that can be used to guarantee the company survival. While activities that able to increase profit such as improving the productivity and cost efficiency, so the company has competitive advantage that able to give maximum value added. Profit means creating fair trade and ethical trade.

b. People. Realizing that around community of the company is one of stakeholder for the company, because the around community support is needed for the presence, survival and development of company, then as
inseparable part with the community, the company should commit to give benefit for the community. Beside that, it should be realized that company operation has potentials to bring impact to around community. People give emphasis to the importance of business practice to support the employee interest by resist to the exploitation of underage children, fair pay, safe work place and tolerable work hours. The concept also ask the company to consider the health and education of the employee.

c. Planet. If company want to be exist then it should consider the responsibility to the environment. Environment is something relate with all living field. But, some company still less care to the around community. It is caused by there are no direct benefit to the company, but the company will always need natural resources. Planet means managing well the energy usage especially the natural resources that is not renewable. Decrease the production waste results and manage again become safe waste to the environment. The embodiment of the program can be in the form of living environment, clean water provision, tourism development.

The three pillars that measure the success value of company with three criteria: economic, environment, and social. The triple bottom line concept implicate that the company should give emphasis to the stakeholder interest than the shareholder.
C. Corporate Social Responsibility (CSR)

1. The Definition of Corporate Social Responsibility (CSR)

The use of the term Corporate Social Responsibility or CSR lately has become increasingly popular with the ever increasing practice of corporate social responsibility. CSR has been known in 1970, and nowadays become the one of innovation for the company relationship between society and customers. There are some definition regarding the term of CSR.

According to The World Business Council for Sustainable Development (WBCSD) in Wibisono (2007:7) define as continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life if the workforce and their families as well as of the local community and society at large.

And The World Bank in Wahyudi (2008:29) explain that CSR is the commitment of business to contribute to sustainable economic development working with employees and their representatives the local community and society at large to improve quality of life, in ways that are both good for business and good for development. And also from the other expert explain that CSR mean open and transparent business practices that are based on ethical values and respect for employees, communities and environment.
Based on the government regulation the definition of CSR are follows:

The Government Regulation number 25 year 2007 article 15 about capital investment (*Undang-Undang Penanaman Modal* or UUPM) explain that the company responsibility to creates the harmonious relationship and appropriate with the environment, value, norms and the society around the company. And the Government Regulation number 40 year 2007 article 1 about limited company (*Undang-Undang Perseroan Terbatas* or UUPT) explain that the corporate social responsibility and environment are the commitment of company to contribute in the economic sustainable development in order to improve the social welfare.

Base on the opinion above the researchers provide the conclusion as CSR is a concept whereby companies integrate social and environmental concern in business operations and interaction with the stakeholders on a voluntary basic.

2. The Implementation of Corporate Social Responsibility

The scope of CSR practices are mostly refers to the concept of the Triple Bottom Line. This is supported by the implementation of CSR that is showed by the Prince of Wales International Business Forum that provide five pillars. First, the company's efforts to gain the support of human resources, both internal (employees) and external (public), by developing and providing welfare to them. Second, strengthening economies means the company required to not become rich own while the society surround them
is poor therefore they have to empowering the economic around. Third, maintaining harmonization with surrounding society to avoid conflicts (assessing social cohesion). Forth, implementing the good governance (encouraging good corporate governance). Fifth, protecting environment. (Wibisono 2007:125)

The other opinion is still in line with the reasoning above is Gurvy Kavei in Wibisono (2007:126) stated that CSR can be practiced in three areas. First, workplace. Its implementation includes safety and healthy work, elaboration of knowledge and skill employees, increasing the prosperity. Second, community. Its implementation through the contributions such as charity, philanthropy or community development. Third, environment. Its implementation such as production process and environmentally friendly products, and also participate in environmental preservation efforts. CSR include responsibility as the impact on their activities on the environment, customers, employees, communities, stakeholders, and other users.

3. The Principle of Corporate Social Responsibility

Social responsibility consist of wide dimension. In addition, social responsibility is also very different interpretations, especially if associated with the stakeholders. According to David Crowther (2008) in Nor Hadi (2011) describes the principles of corporate social responsibility into three, namely: (a) sustainability, (b) accountability, (c) transparency. Here are the explanation from each principles:
a. Sustainability
Sustainability is concerned with how companies in performing activities while taking into account the sustainability of the resource in the future. Sustainability means how to use current resources while considering and taking into account the ability of future generations. Thus, sustainability related to the effort on how to utilize the resources in order to society still consider future generations.

b. Accountability
Accountability is responsible for the company's efforts and activities that have been carried out. Accountability is needed when activity affect the company and the external environment is affected. Accountability can be used as a media company to build the image and the network to the stakeholders. The level of accountability and responsibility for determining the legitimacy of the company's external stakeholders, as well as increase the company's stock transactions.

c. Transparency
Transparency is an important principle for external parties. Transparency related to the reporting of the company's activities and its impact on the external side. Transparency serves to reduce the asymmetry of information and accountability for environmental impacts.
4. Corporate Social Responsibility Theory

a. Legitimacy Theory

The legitimacy of the public is a strategic factor for the company in order to develop the company in the future. It can be used as an opportunity for companies to arrange corporate strategy, particularly to positioned the company in the community. Legitimacy is the psychological situation a person or group alignments that very sensitive to the surrounding environment symptoms. According to Deegan, Robin and Tobin (2002) in Nor Hadi (2011) stated that legitimacy can be obtained when there is a match between the company's presence does not disturb or match (congruent) with the existence of the value system in the society and the environment. Here is an illustration of the position of legitimacy and the legitimacy gap between companies and stakeholders.

![Legitimacy gap area](source: Gary O'Donovan in Nor Hadi (2011))

Figure 2
Legitimacy gap area
From the illustration above shows that the region X is suitability (congruence) between the social expectations whereas the regions Y and Z is a mismatch (incongruent) between the public perception and corporate activities (legitimacy gap). Corporate activities, including appropriateness of social values and norms. The reduction of Legitimacy gap can be done by expanding the X area through legitimacy strategies, such as by increasing the social responsibility and social disclosure (social disclosure) as a form of accountability and transparency the company's operations.

b. Stakeholder Theory

The company is not only responsible for the shareholders, but it is becoming more widespread is up to the stakeholders. This happens because of the demands of society due to negative externalities (Harahap, 2002). Therefore, the responsibility of the company which initially only measured the extent of the economic focused in the financial statements, now also have to consider the social dimensions of the stakeholders, both internal and external. Stakeholders is a group or an individual who can Affect, or be affected by, the success or failure of an organization, such as government, corporate competitors, local communities, international environment, agencies outside the company.

There are interconnections between stakeholder theory and legitimacy theory. Companies should reduce the expectation gap with
the public in order to increase legitimacy (recognition) community. Therefore, the company must maintain its reputation by way of changing the orientation of the original measured not only economic measurement (shareholder orientation), but also considering social factors as a form of concern for social issues (stakeholder orientation).

c. **Contract Social Theory**

Social contract arises because of the interrelation of the social life of the community, in order to the harmonization and balance, including the environment. The company, which is a group of people that have a common goal and to achieve goals together, is a part of the community in the larger environment. Its existence, is largely determined by the community, where they have mutual influence. Therefore, for a balance, it is necessary social contract either explicitly or implicitly that an agreement that is mutually protect the interests of the company.

Social contracts are built and developed, one of them to explain the relationship between the companies to the community. The Company has an obligation to the community to give benefit local communities. Interaction with companies toward the society are always trying to meet and comply with the rules and norms of society, so that the activities of the company can be recognized (Deegan, 2000). Meanwhile, David Crowther gave the illustration social contract between the company and stakeholders.
The illustration above gives the interrelation and interdependence between the company and stakeholders, and between stakeholders with stakeholders. Correspondingly with the opinion from Roisseau stated that nature has given the regularity and have the competence to move in it. Therefore, to maintain the regularity of natural law, the parties in it needs to perform a contract, either directly or indirectly.

5. Classification of Social Responsibility Direct and Indirect Effects

Within Hadi (2011:160-166) stated that corporate social responsibility activities are divided into two that are indirect and direct activities. Generally, direct activities include: disaster aid, medical aid, basic food aid, and another similar activities.

While the real activity of social responsibility, as indirect effects found in the annual report, such as: efforts to maintain the environment by investing institutions and procedures that are oriented to reduce dust
emissions, air and water pollution, waste recycling, environmental management and other. The following is an overview the classification of social responsibility activities direct and indirect effects are described in the table:

Tabel 1: Classification of Social Responsibility Direct and Indirect Effects

<table>
<thead>
<tr>
<th>No</th>
<th>Classification</th>
<th>CSR activity</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Environment</td>
<td>Waste management</td>
<td>Largely indirect, due to the small involvement and indirect benefits have on society (stakeholder)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Waste treatment</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Environmental survey</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Environment Rehabilitation and reclamation</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Environmental management systems and procedures</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Prevention of pollution</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>security environment</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>environmental protection</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Compliance with regulations</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Community</td>
<td>Help repair</td>
<td>helping to communities around the company is largely direct, but most are oriented in relation to the interests of the company.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Alleviation of unemployment communities around companies</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Increased economic prosperity and community around the company</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Help cooperatives and SMEs</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Healthy help</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Education and training assistance</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>help clean water</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>disaster help</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>support facilities and public</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>religious support and a great day</td>
<td></td>
</tr>
</tbody>
</table>
### 3. Employee

<table>
<thead>
<tr>
<th>Incentives and pension allowance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Healthy assurance</td>
</tr>
<tr>
<td>Improvement of skills, education and training</td>
</tr>
<tr>
<td>House renovation and educational programs for employee</td>
</tr>
<tr>
<td>Environment, health and safety workplace</td>
</tr>
<tr>
<td>Employees refreshing program</td>
</tr>
<tr>
<td>Giving furlough programs</td>
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</tbody>
</table>

This aid is dominated by direct to internal stakeholders. However, it remains oriented towards the interests of the company, given the quality of the employees is one of the management interest.

### 4. Product

<table>
<thead>
<tr>
<th>Research and development</th>
</tr>
</thead>
<tbody>
<tr>
<td>has a production procedure and refer to product quality standards</td>
</tr>
<tr>
<td>Facilities and laboratory quality control</td>
</tr>
<tr>
<td>Product quality award</td>
</tr>
<tr>
<td>Quality assurance &amp; healthcare products</td>
</tr>
</tbody>
</table>

Social responsibility in this area is 60% indirect and 40% direct effect for external stakeholders.

### 5. Energy

<table>
<thead>
<tr>
<th>The use of energy efficient equipment</th>
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<tbody>
<tr>
<td>Using non-fossil fuels</td>
</tr>
<tr>
<td>Energy conservation</td>
</tr>
<tr>
<td>Replacement of obsolete equipment</td>
</tr>
</tbody>
</table>

almost 90% of this activity is internal, so it is indirect stakeholder.

### 6. Other

<table>
<thead>
<tr>
<th>Awards</th>
</tr>
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</table>

| Annual report |

Source: Nor Hadi (2009)

#### 6. The stages of CSR Implementation

Within Wibisono (2007:127-131) describes the stages of implementation of CSR. Generally, companies that have succeeded in implementing CSR using the following steps:
a. Planning Stage

The planning stage consists of three main steps, namely Awareness Building, Assessment CSR, and CSR Building Manual. Awareness building is the first step to build awareness of the importance of CSR and management commitment. This effort can be done through seminars, workshops, discussion groups and so on. CSR assessment is an attempt to map the condition of the company and identify aspects that need to be given priority. The next step is to build CSR manual. Assessment results are the basis for the preparation of the CSR manually. Efforts are conducted through benchmarking or by asking independent experts from outside the company.

b. Implementation Stage

The implementation stage consists of three main steps namely, socialization, implementation, and internalization. Socialization is necessary to introduce the components of the company on various aspects related to the implementation of CSR. Efforts are needed to be effectively and which formed a special team under the supervision of the director of a company appointed as CSR champions in the company. then the implementation of an activity that is carried out in line with the existing CSR guidelines. While internalization is the long-term stages. Internalization include attempts to introduce CSR in the company's entire business process.
c. Evaluation Stage

After the CSR program is implemented, the next step is the evaluation of the program. Evaluation stage is the stage that needs to be done consistently over time to measure how far the effectiveness of the implementation of CSR. The evaluation also can be done by asking an independent party to audit the implementation of CSR has been done.

d. Reporting

Reporting is required with the aim of building a better information system for decision-making purposes and the purposes of the disclosure of information about the company.

D. The Relationship Between TBL And CSR

A triple bottom line approach to doing business implies that decision-makers will evaluate their decisions in light of social, environmental, and financial responsibilities. One of the implementation of triple bottom line concept is corporate social responsibility, CSR is a form of caring companies against economic, social, and environmental issues based on the three basic principles that include profit, people and planet (3p).

Profit, as an corporation with a profit oriented enterprises, companies should be oriented to seek economic advantage to ensure the survival of the company in order to the operational and develop continuance of the company. People, in order to ensure the survival and increase the competitiveness of the
company, the company must have concern for the welfare of employees and the man who was a valuable asset in the organization or country.

A form of CSR that socially-oriented such as giving scholarships for students, establishment a means of education and health. Planet, concern for the environment and sustainability biodiversity can be done through the program green environment, supply means of water repair settlement, development of tourism.

E. Industry And Environmental Issue

Living environment consist of biotic and abiotic factors and the existing condition in the occupied space. The change of biotic factors either naturally or because of man action has exceeded biotic ecosystem tolerance that called by pollution. The pollution is occurred because of poisonous and danger materials in the waste that enter into environment. Principally, the function of industry is to process input become output. For the input: raw materials, supporting materials, machine, equipments, employee, and etc. While the output is classified as the main product, side product, and waste that can be divided into waste with economic value and without economic value. The investigation to the waste sources can be done at the input, process, or output by looking at the type and specification of the produced waste, and to identify the industry as the polluter, then it should be known the industrial type, materials, process system and the final processing of the polluter sources (Nurika and Hidayat 2006:3-4).
To create sustainable development, it needs the basic change at the quality of the development. In general, industry in its activity needs more attention to make it efficient in using resources, producing less waste, and minimize the negative impact to the human health and environment.

1. Definition of industry

According to Government Regulation number 5 year 1984 about industry, industry is economic activities that process raw materials, half finished goods, and/or finished goods become the goods with higher value, including engineering and industrial engineering. While, According to Winarno and Ismaya (2007:252) Explained that industry is economy activities by process or cultivate materials using the equipment as machines to produce goods or services. And Badan Pusat Statistik (2012) mentions the industry is a business unit that perform economic activities, aims to produce goods or services that have the layout of the building as well as legalization and has own administrative regarding the production and cost structure.

Based on the definition above can be concluded that industry is economic activities which is cultivate, processing and produce the goods and services by using current equipment to increase the utility of goods.
2. Classification of industry

According to Kristanto (2002:156-158) industry can be classified as follow:

a. Basic industry or upstream industry

Upstream industry has characteristic as follow: capital intensive, great scale, use high technology and tested. The location is selected near the raw materials and has its own energy. The industrial development able to cause environmental change, either economic, social and cultural aspects or pollution.

b. Downstream industry

The industry is the continuity of the upstream industrial process. In general the industry processes half finished goods become finished goods, the location usually near to the market, and use middle and tested technology and man power intensive.

c. Small industry

Small industry mostly develops in the rural and urban area, has simple tools. Although the production similar with the downstream industry, but the processing is simpler. The factory layout and the waste management is not considered. The industry is man power intensive.

Beside the classification above, industry also be classified conventionally.
a. Primary industry, that changes raw material become semi finished goods, for example agriculture and mining.

b. Secondary industry, that changes semi finished goods become finished goods.

c. Tertiary industry, that mostly including services and merchandising industry that manage secondary industrial materials.

d. **Industry with environmental insight**

The environmental friendly sustainable development is conscious and planned efforts that combine the living environment including the resources, into development process to guarantee the ability, prosperity, and life quality of today and future generation. To support the human activities, it is often be done the change to the nature, the change is the development. One of development forms is industrial development. Industry is the human effort to produce something that is considered as important for the economic improvement. For big factory establishment, it needs wide area and near with the raw material to press the production cost. After the establishment is finished, and the activities begun, the important thing that should be considered is the waste of the production. The waste has potentials to pollute the around environment if it is not handled well. Because of that, analysis about the living environmental impact (AMDAL) is needed to conserve the living environment because of the human being activities that is called as development. In the 1991, International Standardization Organization (ISO) compile international
standardization for the environment in the ISO 14000, then it is determined also the commission for the environmental management.

(a) SC1 is sub commission that responsible for standardization of environmental management system.

(b) SC2 is responsible to compile the standard that relates with the environmental audit and environmental investigation. Environmental audit can be recommended in things that can be done such as raw materials saving, energy efficiency, and waste reduction.

(c) SC3 determines the eco label. Eco label is the sign that placed at industrial product that shows the product fulfill various criteria that considered environmentally friendly. The valuation criteria including the raw material provision up to the banishment of the used product.

(d) SC4 is responsible to develop the standard that can be done by an organization to measure the environmental performance.

e. Definition of Waste

In Ikhsan (2009: 222-224) waste is the produced waste from the production process either industrial or domestic where its presence in a certain time or place is not wanted by the environment because does not have economic value. The environmental control because of industrial waste is one of problems that should be handled for each developing country that enter into industrialization era. In Kristanto (2004: 02) explained the waste definition as
“Waste is logical consequences for each industrial establishment although not every industry produce waste. If waste contains certain chemical compound as dangerous and poisonous materials with certain concentration is discharged to the environment then it will produce pollution, either at the river, land, or air”.

Waste that contains poisonous and danger pollutant materials or known as B-3 waste. Its presence is dangerous especially that come from factory/industry, where the B-3 waste mostly used as the raw material or supporting material. The dangerous and poisonous of the waste is shown by the physical and chemical nature of the materials either from the quantity or the quality. Some dangerous and poisonous criteria have been determined, such as flammable, explosive, corrosive, strong oxidizing and reducing, easy to decay and etc. the danger level of waste depend on the type and the characteristic, either short or long term. Maybe in the short term will not bring significant influence, but in the long term will be fatal for the environment. Because of that, the prevention and overcome of the waste should consider the emerging impact for the long term (Kristanto 2004: 167-170).

While the Government Regulation No 18/1999 defined the B-3 waste as dangerous and poisonous waste (B3) is the residue of business and/or activities that contain dangerous and/or poisonous materials because of the property and/or its concentration and/or the amount, either directly or indirectly able to pollute and/or damage the environment, and/or able to
danger the living environment, health, human being and other being survival.

Thus, it can be concluded that waste is thrown materials from the human activities, or natural process that does not have economic value, even negative economic value.

f. Classification of Waste

In Kristanto, 2002: 169-173 stated that the kinds of based on its economic value, the waste is divided into waste that has economic value and that has not economic value. The waste that has economic value is the waste if pass through further process will bring value added. While waste that has not economic value is waste if pass through further process will not bring value added except only facilitate the discharge system. The waste of this type that often bring problems of pollution and damage of environment.

According to the characteristic, industrial waste can be grouped into three section:

(a) Liquid waste come from the company that use much water in the production process for example in the cooling of factory machine. Beside that the raw material that contains waters so in the process the water should be discharged.

(b) Solid waste is industrial waste in the form of solid, mud, or porridge that come from processing. The waste can be categorized into two
section, that is solid waste that can be recycled (Plastic, textile, metal scrap) and solid waste that has not economic value
(c) Gas and particle waste is waste that mostly discharged in the air.

**g. Waste Handling**

Industry which in its activities produce waste then there is several ways that can be used Sunu (2001:26) divided into 3 types such as:
(a) Industry send its waste to the waste processing center.

The waste is sent to the waste processing center that has recognition from the authority
(b) Waste is used by company or other industry.

Waste of a company can be used by other industry even able to have value added as main materials or as the supporting raw materials.
(c) Industry process its own waste.

Industry able to process its own waste such as liquid waste that is processed in the waste processing installation.

**h. Waste management**

The waste management goal is to control the pollution caused by the waste disposal from the human activities, such as industrial activities. Waste management is one of efforts in reach clean production, that is part of ISO 14000 certification. Waste management can be done in various ways, that is prevention in nature, avoid or decrease the waste output from the production, from the production process, and overcoming in nature
such as overcoming the waste that too late has out from production process (Nurika and Hidayat 2006: 20-22).

i. **Waste utilization**

The waste usage can be grouped into three activities, that is reuse: the waste usage by reusing for similar need or function, without experience processing or form change, recycle: usage effort through chemical processing to produce similar product or other product, recovery: waste usage by processing to obtain one or more materials/component in it. The waste usage is helpful in decrease the waste in the environment. The waste usage means give value added that previously without economic value, become materials that have economic value. (Nurika and Hidayat, 2006: 26-28).

j. **Relation between Industry, Environment and Society**

In Ikhsan (2009:100-103), there is important factor in developing life cycle in the company environment. The factor about the relation between environment, industry and the community around the industry.

(a) Manufacturing industry is one of factors that contributes in considering the damaged environment.

(b) However, factor that give real contribution is the population growth and the human being desire for more and better quality of goods.

(c) The societal needs to have goods excessively is directed for design and better development and complex materials and manufacturing process.
(d) Manufacturing process requires industrial activities, done without analysis of implication that impact to the environment.

(e) Customers use damaged manufacturing goods that impact the environment.

(f) The relation between the needs and desires of human being, industrial activities, and environment should be understood well to value and regulate the risk.

k. **Environmental Management Program**

Implementation of environmental management must be supported by government programs according to the paradigm of environmental management programs include:

a. Environmental Impact Assessment (EIA/AMDAL). AMDAL document includes studies on the environmental impacts that may arise from an activity that is planned, both at the stage of pre-construction, construction and post construction. This document must be approved by government authorities as one of the requirements of a permit for a company to run the new activity. Requirements as outlined in the document is a legally binding for companies related to the AMDAL should be part of a company's environmental management system.

b. Environmental Performance Assessment Program (PROPER) is an assessment of the environmental performance of the company into 5 ranked from top to bottom is golden (nil emissions), green (better than
government standards, blue (according to government standards), red (not yet meet quality standards), and black (well below the requirements and there are environmental issues). Ratings are given based on the requirements contained in Environmental Regulations. (http://www.menlh.go.id. Acess 05 Desember 2013)

F. Environmental Accounting

1. The Definition of Environmental Accounting

According to Sunu (2001:1) environment is a space unit with all thing, capacity, situation and being including in it human beings and their behavior that influence the viability and the human welfare. While according to Harahap (2003: 347-348) environmental accounting is accounting science that record, measure, and report the environmental impact that is produced from the production process of company such as pollution, poisoning, noise, discrimination. Environmental accounting of accounting science that serve to identify the socio benefit and socio cost that emerge from the production activities of company.

Whereas according to Ikhsan (2008: 6-7) environmental accounting is a tool of environmental management that is used to value the effectiveness of conservation activities based on summary and classification of environmental conservation cost. The environmental accounting data also be used to determine the cost of environmental management. The importance of environmental accounting disclosure that relate with the environmental conservation activities by company or other
organization and improving the environmental management efficiency by conducting valuation of the environmental activities from the viewpoint of environmental cost and economic benefit.

Furthmore according to Djogo (2006:5), environmental accounting is a term that relates with the entry of environmental accounting into practice company accounting. The environmental cost is the impact either monetary or non monetary that should be accounted for by company as the consequences of activities that influence the environmental quality. The accounting results also be used by the company leader to make decision that relates with the environmental improvement. So, environmental accounting is the cost report that is needed for environmental conservation that is written in the form of financial report then the report be used for decision making of the company in managing environment.

Environmental issues become important to consider environmental accounting in order to disclose environmental accounting data created and published in accordance with the high level of comparison. In order to achieve success in the implementation of environmental accounting for the company will require company’s management to manage the suitability between evaluations made by the company to the environmental impact.
According to Harahap (2003:356-358) state that there are three models about the company involvement in each social activity. The model explain about the company involvement in social activities.

(a) Classical model

The model departs from the perfect competition concept. The company goal only to get profit. The success criteria of company is measured by the efficiency and growth. Milton Friedman stated “there is only one company’s responsibility, that is to use its own wealth to improve the profit along with the prevailing regulations in a free competition system without deception and fraudulence”

(b) Management model

According to the model, company is considered as permanent institution that is live and has its own goals. Manager as the person that is trusted by the capital owner for the interest of not only the capital owner, but also to those that is involved directly with the company such as employee, consumer, supplier. So the manager as the party that responsible for the company survival to choose policy that should consider the social responsibility of the company.

(c) Social environment model

The model explains that company convinces that economic and political power that is owned has relation with the interest of social environment and not only from market suitable with the classical model. The consequences of the company that should participate actively in
solving the social problems in its environment such as education system that is not quality, unemployment, slum and etc. in the model the company should widen the goals that want to be achieved that relate with the social welfare in general.

2. The Purposes of Environmental Accounting

Ikhsan (2008:6) said that Basically the aim of environmental accounting is to increase the amount of relevant information that is made for those who need it or use it. The goals of environmental accounting consist of two such as:

a) Environmental accounting is the information means in an environmental management tools. As the environmental management tool, environmental accounting is used to value the effectiveness of environmental conservation activities. The environmental accounting data also be used to determine the cost of environmental management facilities, the all cost of environmental conservation and also investment that is needed for environmental management activities. Beside that, environmental accounting also used to value the output level and achievement each year to guarantee the environmental performance improvement that should take place continuously.

b) Environmental accounting as communication tool to the communities. As the communication tool with public, environmental accounting is used to deliver the negative impact of activities
environment for environmental conservation and the results to public.

Some opinions from Ikhsan can be concluded that environmental accounting aims to assess the performance of industry in the field of environmental management with conducting an assessment of environmental activities and benefit from the viewpoint of the cost.

3. The Function of Environmental Accounting

Environmental accounting is served to fulfill the information either internal or external so the environmental accounting information should be relevant. According to Ikhsan (2008:32) stated the function and roles of environmental accounting is divided into two:

a) Internal function is function that relates with the internal party of the company. The internal party is the party that run the business. While the actor and the dominant factor at internal function is a leader of the company because a leader of the company is the person who responsible for each decision making. The internal function is enable to regulate the environmental conservation cost and to analyze the cost of environmental conservation activities effectively and efficiently suitable with the decision making.

b) External function is function that relates with the financial reporting aspect. The financial report is aimed at giving information to investor and creditor in decision making of investment or credit. In this function, the company reveal the outcome of environmental
conservation activities in the form of accounting data. The external function give authorities for company to influence the decision making of stakeholders, such as customer, business partner, investor, local inhabitant or administrative section. Because of that, company should give information about how the company management responsible the management to the owner for the economic resources usage that is entrusted to them. It is expected with the publication of environmental accounting results will be functioned and useful for the companies in fulfilling their responsibility.

4. The Benefit of Environmental Accounting

According to Ikhsan (2008: 66) the benefit of accounting environment consist of five, as follows:

a) Environmental accounting could reduce spending on business environmental accounting where it can help to identify and analyze the hidden costs

b) Environmental accounting may help decision making from important information additional costs caused by environmental issues.

c) Environmental accounting enhances the economic and environmental performance of enterprises such as the use of new technology in managing waste, conducting environmental conservation as a form of prevention and management of waste.

d) Environmental accounting would be able to satisfy all parties concerned the application of environmental accounting in enterprises or activities.
simultaneously can improve economic performance and environmental performance. So the impact on customer satisfaction and good relationships between investors, local governments, local communities, and reduce the risk of violations of the law and improve the good relationship with other stakeholders.

e) Environmental accounting providing excellence efforts or activities. This enhances the overall environmental accounting methods or devices which help businesses or activities in increasing business profits and decision making.

The benefit of environmental accounting from Ikhsan can be concluded that environmental accounting provide the information to the stakeholder regarding the environment preservation as the form of environmental protection to assessing the performance of industry.

5. The Environmental Cost

The environmental cost is cost that arise from the company activities which influence toward environment quality. According to Hansen and Mowen (2005:72) environmental cost arise cause of bad environment condition. Soource of environmental cost include the maintenance costs, prevention and management cost. The United States Environmental Protection Agency (US EPA) said that environmental accounting is a function that describes the environmental costs that must be considered by the company's stakeholders in identifying the ways that can reduce or avoid costs at the same time and effort improving environmental quality.
According to Ikhsan (2009:117-119) the environmental cost comes from external and internal. The cost of the internal environment of the company composed of direct costs, indirect costs, and the cost is uncertain. This includes medical expenses or the cost of the restoration, the cost of waste management, and environmental management costs.

External environmental cost comes from the external company environmental damage costs.

Table 2
The environmental cost

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<thead>
<tr>
<th><strong>External environment costs</strong></th>
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<td><strong>Example:</strong></td>
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<tr>
<td>Depletion of natural resources</td>
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<td>Noise and aesthetic impacts</td>
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<td>Residual air and water emissions</td>
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<td>Long-term waste disposal</td>
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<td>Uncompensated health effects</td>
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<td>Change in local quality of life</td>
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<table>
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<tr>
<th><strong>Internal environment costs</strong></th>
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<td><strong>Examples:</strong></td>
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<tr>
<td>Direct or Indirect Environmental Costs:</td>
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<td>1. Waste management.</td>
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<td>2. Remediation costs or obligations.</td>
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<td>3. Compliance costs.</td>
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<td>4. Permit fees.</td>
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<td>5. Environmental trainning.</td>
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<td>6. Environmentally driven R&amp;D.</td>
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<td>7. Environmentally related maintenance.</td>
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<td>8. Legal costs and fines.</td>
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<td>9. Environmental assurance bonds</td>
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<td>10. Environmental certification/labeling</td>
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<td>11. Natural resource inputs</td>
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<td>12. Record keeping and reporting</td>
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| Contingent or Intangible Environmental Costs: |
| 1. Uncertain future remediation or compensation costs. |
| 2. Risk posed by future regulatory changes. |
| 3. Product quality |
| 4. Employee health and satisfaction. |
| 5. Environmental knowledge assets. |
| 6. Sustainability of raw material inputs. |
| 7. Risk of impaired assets. |

6. The category of environmental conservation costs

Business activities can be categorized in any business activity itself, administrative activities, research and development activities, and social activities depend on the relationship between business and environmental impacts. According to Ikhsan (2008:79-90) describes the costs related environmental conservation as follows:

a. Business Activities

Business is a cost to reduce the environmental impact of activities going on in the business area. The business area is an area where the company directly regulate environmental impact. These costs include:

1) The cost of pollution prevention.

The cost is cost pollution prevention efforts are made to reduce the environmental impact, such as the installation of facilities to end emissions that has the aim to prevent pollution. Pollution refers to public health or the environment.

2) The cost of global environmental conservation.

Global environmental conservation costs are costs related with negative environmental impacts. Costs are allocated to the prevention of global warming, to prevent the depletion of the ozone layer.

b. Cost of Upstream and Downstream

Upstream costs is a cost that seeks to reduce the environmental impact created before to the inputs of goods and services in the business area.
Downstream costs are costs for efforts to reduce the environmental impact of goods and services created after issued from the business area.

c. Administrative Activities

Administrative costs are costs for management activities generated by the company in environmental conservation activities. Costs involved in administrative activities are:

1) The cost for implementation and improvement of the environmental management system

2) The cost of the disclosure of environmental information relationship with the environment and activities

3) Costs of monitoring environmental impact.

4) Costs for environmental improvement activities.

d. Social and Development Activities

Costs for research and development activities are allocated to the conservation of the environment, these costs include:

1) Research and development costs for the development of products that help conserve the environment.

2) The cost of research and development to limit the environmental impact on the processing of products.

3) The cost of research and other developments related to the environmental impact of restrictions on the distribution or marketing of products.
e. Social Activities

The cost of social activities related to environmental conservation are generated for social welfare. The cost considerations for environmental conservation efforts of social activities indirectly related to the business activities of the company. The cost of social activities, among others:

1) The cost of greening
2) The cost related with donation
3) The cost related with other social activities

7. Reporting and disclosing the environmental accounting

Environmental concern in the industry can be realized with the financial statement in helping create a positive impression in the eyes of investors, Governments and communities. Financial report this environment should be manifested in the form of the statement report. Environmental costs need to be reported separately according to the classification of costs. The process of classification using the cost classification model based on quality cost category among other environmental costs: the cost of prevention, appraisal costs, internal error costs, the external error cost, and added value. This classification aims to present the information as a means to evaluate the performance of the company's operations that have an impact on the environment, as well as control over the environmental cost.