

**AN EVALUATION OF INDONESIAN ENVIRONMENTAL NON-PROFIT
ORGANISATIONS' FINANCIAL PERFORMANCE
(An Empirical Study on World Wildlife Fund Indonesia)**

(Undergraduate Thesis)

By

ALDO LAZUARDY



**FACULTY OF ECONOMICS AND BUSINESS
UNIVERSITY OF LAMPUNG
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ABSTRACT

AN EVALUATION OF INDONESIAN ENVIRONMENTAL NON-PROFIT ORGANISATIONS' FINANCIAL PERFORMANCE (An Empirical Study on World Wildlife Fund Indonesia)

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The contribution of environmental Non-profit Organisations (NPOs) in solving Indonesia's environmental problems has become increasingly important, and stakeholders should monitor NPOs performance in order to keep providing benefits to the society. This research provides a description of Indonesian environmental NPOs' financial performance; their fiscal performance, fundraising efficiency, and public support, as well as assesses the compliance of said NPOs' financial statements with generally accepted accounting standards for non-profit entities in Indonesia. Using financial ratios tested by Ritchie and Kolodinsky (2003), this study concludes that the focus organisation presented a favourable financial performance in the observed 5-year period. This research also found that the aforesaid financial statements are in accordance with prevailing standards, including PSAK 45. This research also identified problems surrounding financial performance, such as minuscule participation from individual donors due to religious background of the demography.

**Keywords : Environmental, Non-profit Organisations, Financial
Performance**

ABSTRAK

Evaluasi Kinerja Keuangan Organisasi Nirlaba Bidang Lingkungan di Indonesia (Studi Empiris pada *World Wildlife Fund* Indonesia)

Oleh

ALDO LAZUARDY

Kontribusi organisasi-organisasi nirlaba bidang lingkungan dalam menyelesaikan permasalahan lingkungan di Indonesia menjadi semakin penting, dan pemangku kepentingan harus mengawasi kinerja keuangan organisasi-organisasi tersebut agar mereka tetap dapat memberikan manfaat kepada masyarakat. Penelitian ini memberikan gambaran mengenai kinerja keuangan organisasi nirlaba bidang lingkungan di Indonesia, meliputi kinerja fiskal, efisiensi penggalangan dana, dan dukungan publik; serta menilai laporan keuangan organisasi-organisasi tersebut dengan standar akuntansi keuangan yang berlaku umum di Indonesia. Dengan rasio-rasio keuangan yang telah diuji oleh Ritchie dan Kolodinsky (2003), penelitian ini menyimpulkan bahwa organisasi fokus menunjukkan kinerja keuangan yang baik dalam periode observasi lima tahun. Penelitian ini juga menemukan bahwa laporan keuangan organisasi-organisasi nirlaba tersebut telah sesuai dengan standar akuntansi keuangan yang berlaku, termasuk PSAK 45. Penelitian ini juga menemukan permasalahan-permasalahan seputar kinerja keuangan, seperti kecilnya jumlah partisipasi dari donor individual, yang disebabkan oleh latar belakang agamawi pada demografi.

Kata kunci : Lingkungan, Organisasi Nirlaba, Kinerja Keuangan

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An Undergraduate Thesis

Submitted for partial fulfilment for the
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in

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**FACULTY OF ECONOMICS AND BUSINESS
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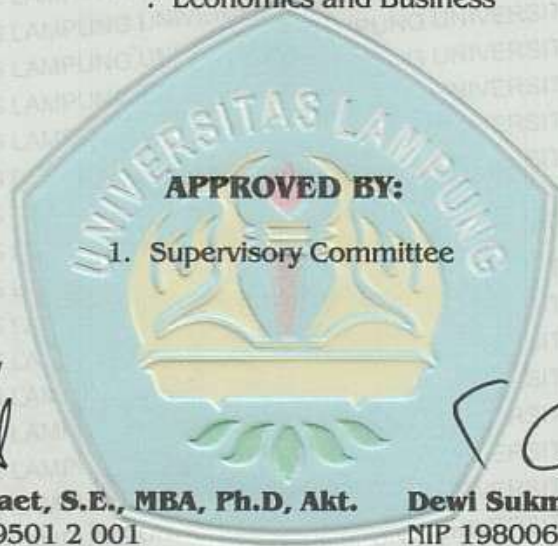
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Student Name : Aldo Iaguardy

Student ID : 1511031163


Department : Accounting

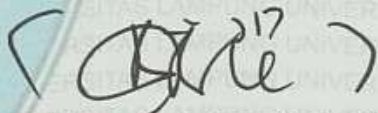
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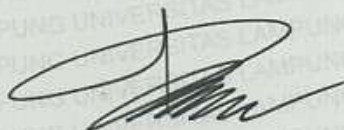
APPROVED BY:

1. Supervisory Committee


Dr. Susi Sarumpaet, S.E., MBA, Ph.D, Akt.
NIP 19691008 199501 2 001


Dewi Sukmasari, S.E, MSA, Akt.
NIP 19800625 200604 2 001

2. Head of the Department of Accounting



Dr. Farichah, S.E., M.SI., Akt.
NIP 19620612 199010 2 001

ADMITTED BY

1. Examination committee

Chairperson : Dr. Susi Sarumpaet, S.E., MBA, Ph.D, Akt.

Secretary : Dewi Sukmasari, S.E, MSA, Akt.

Chief examiner : Prof. Dr. Lindrianasari, S.E., M.Si., Akt.

2. Dean of Faculty of Economics and Business



Prof. Dr. Hl. Satria Bangsawan, S.E., M.Si.
NIP 19610904 198703 1 011

Passed examination on : 19th September 2017

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I hereby certify that:

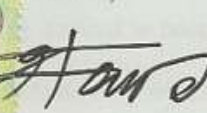
1. This undergraduate thesis, titled "*An Evaluation of Indonesian Environmental Non-Profit Organisations' Financial Performance (An Empirical Study on World Wildlife Fund Indonesia)*" is my own work, and neither did I imitate nor cite the works of others in a manner that is against the acceptable standards in the scientific community, which is defined as **plagiarism**.
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Author,




Aldo Lazuardy
NPM 1511031163

AUTHOR BIOGRAPHY



Aldo Lazuardy was born in Jakarta on 23rd January 1991 to Hotmand Parlindungan Nasution and Erna Hertaty. He spent a large portion of his early life near Kampung Tugu, North Jakarta, where he received his education. He went to Jakarta state high school SMA Negeri 13 where he became a member of the academy's English debate club.

He also participated in national English debate competition in National Science Olympics (Indonesian: *Olimpiade Sains Nasional*—OSN) in 2007.

After finishing high school in 2008, The author continued his education in Indonesian State College of Accountancy (Indonesian: *Sekolah Tinggi Akuntansi Negara*—STAN) to pursue an Associate's degree in order to be eligible to work as a civil servant for Indonesian Ministry of Finance or other government financial oversight bodies. Originally aspired to become a psychologist, he was a reluctant student and managed to graduate only with satisfactory grades.

The author interned for a small accounting firm in Jakarta before working for the Finance and Development Supervisory Agency (Indonesian: *Badan Pengawasan Keuangan dan Pembangunan*—BPKP). The agency then stationed the author to Palangkaraya, Central Kalimantan for two and a half years. During this period, he became a member of audit teams evaluating various government programs in the

province as well as reviewing accountability reports for the provincial police department. In 2015, the author received an opportunity to continue his education and pursue a Bachelor's degree in accounting at University of Lampung.

Speak the truth; yield not to anger; when asked, give even if you only have a little.

By these three means can one reach the presence of the gods.

(Dhammapada:224)

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The author would also like to offer apologies for the limitations of this thesis, and invites constructive criticisms in order to maximize its benefits to the readers and to the society in general.

Bandar Lampung, 26 September

2017

Author,

Aldo Lazuardy

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CHAPTER I

INTRODUCTION

1.1. Background

In the last 15 years, the economy of Indonesia has shown a remarkable progress. According to World Bank, Indonesia experienced an average of 4,8% in economic growth, and International Monetary Fund estimated that by the end of 2016, the country would have generated \$941 billion in nominal gross domestic product (GDP), ranking 17th out of 191 countries all over the world; 5th in Asia, after China, Japan, India, and South Korea; and the 1st in Southeast Asia.

However, this increase in wealth does not come without consequences that negatively affect many aspects of the society. As García-Peñalosa and Turnovsky (2006) discovered, faster economic growth is associated with greater income inequality. In Indonesia, this is supported by World Bank data which states that in the past 15 years, Indonesia's Gini coefficient has increased from 0,3 to 0,4, which indicated the widening of income gap between the poorest and the richest of Indonesians.

Environment is one of the elements that are often negatively affected by economic growth. Arrow, et al (1995) noticed that economic policies have generally been ignoring the environmental point of view. In their research, they

found that economic growth does tend to improve some environmental quality indicator to some extent, but the finding implied that that growth alone did not suffice the improvement of environmental quality, and the adverse effects of development to the environment should not be ignored, as it relates strongly with sustainability of economic activities. Grossman and Krueger (1994) did not find any evidence suggesting that environmental quality deteriorates steadily with economic growth, but they did notice that economic growth brings an initial phase of deterioration followed by a subsequent phase of improvement for most indicators. However, UK news site *The Guardian* (2014) wrote that Indonesia has lost 840.000 ha or about 21% of its tropical rainforest. This broke a world record and surpassed Brazil, which lost 460.000.

Being one of the most urgent environmental problems in Indonesia, the loss of the rainforest area is, among other things, caused by forest fires; the worst of which happened in 1997 and 2015. The 1997 fire and its consequent haze caused not only up to \$2,7 billion in economic costs (Tacconi, 2003), but also a detrimental health problem, leading up to 527 deaths caused by respiratory diseases (Aditama, 2000).

The 2015 haze turned out to be worse than that of 1997. Indonesian Agency for Meteorology, Climatology, and Geophysics (BMKG) stated that air pollution index in Central Kalimantan, Indonesia, reached a record high of 2.300, about 6,5 times of the threshold of 350, even rendering countermeasures impossible due to extremely low line of sight. Although these cases of forest fires, caused by palm oil companies' illegal slash-and-burn land clearing method, recur almost annually, the Indonesian government was criticized for its wanting

response to this catastrophe. The government only provided free, ‘substandard’ masks as an effort to mitigate the effects of the smog, ‘refused’ foreign aid despite its incompetence to combat the fires, as well as failed to strongly enforce environmental laws that seeks to prevent these cases in the first place. As *Khmer Times* (2015) of Cambodia reported, Indonesian government were also notably absent from regional discussion to resolve the haze issue.

When corporations focus solely on profit generation and government’s transparency and competency are questionable, contributions from a third sector that serves “the good of the people” (O’Neill, in Salamon and Anheier, 1992) is necessary to ensure the sustainability of the Indonesian economy. Non-profit organisations (NPOs) in Indonesia have made numerous real actions in responding to environmental crises as well as preventing them from happening, such as World Wildlife Fund (WWF) Indonesia’s assistance in environmental law enforcement by forming a special investigation taskforce in 2015; implementation of sustainable agriculture strategy spearheaded by Bogor-based Centre for International Forestry Research (CIFOR) to “change the mindsets and landscapes” in South Sulawesi; or even dauntless deeds undertaken by activists of Greenpeace Indonesia to effectively stop forest encroachment by palm oil industry in 2008 and 2009.

Realising the need for a sustainable economy and recognising efforts and contributions made by Indonesia’s environmental NPOs to preserve the ‘natural capital’ as an important element of economic sustainability (Barbier, 2005), supporting these organisations has been more crucial than ever. Other than monetary donations, academics should be able to take part in the effort, for

example, by providing scientific insights from accounting point of view on how environmental NPOs should be ideally run in order to reach their goal. However, the accounting side of environmental NPOs—or NPOs in general—has not been frequently discussed by Indonesian accounting researchers. Most researches written around this topic discusses about the adherence of religious NPOs to accounting standards, but few about their financial performance.

As found by Trussel and Parsons (2007) that the availability of financial information positively correlates with the size of donation received by NPOs, this research would serve as a trigger to increase information availability on environmental NPOs so that said organisations can obtain more resources in order to keep their momentum in safeguarding Indonesia's natural capital; that is, to prevent the loss of billions of dollars due to environmental degradation.

1.2. Problem Statement

This research seeks to understand the aforementioned effectiveness and efficiency of Indonesia's environmental NPOs through accounting perspective by evaluating these organisations' financial performance. This research is motivated by these following questions:

1. How is the financial performance of Indonesia's environmental NPOs?
2. Do Indonesia's environmental NPOs accounting practices comply with Indonesian Statement of Financial Accounting Standard (PSAK) No. 45 on Financial Reporting for Non-profit Organisations?

3. How do these organisations, in practice, measure their financial performance, and how do the management apply these measurements in decision making?

1.3. Purpose of Study

This research attempts to address the above questions; that is to say, this research aims to:

1. describe the state of Indonesian environmental NPOs' financial performance;
2. understand whether the accounting practices implemented in said organisations comply to PSAK No.45; and
3. observe how the management measures financial performance and how the information is applied in decision-making.

1.4. Significance of Study

Through this study, the author would like to contribute to accounting and management of NPOs in Indonesia and provide aid for related individuals and/or entities to understand about the aforesaid organisations' financial performance in order to improve their effectiveness and efficiency and maximise the benefit of their contributions to the economy of Indonesia.

1. Theoretical significance

a. For the author

By conducting this research, the author intends to gain a more thorough understanding on the operations of Indonesian environmental NPOs through the accounting point of view in order to contribute to their effort in creating a sustainable Indonesian economy.

b. For academics

This research would expectedly become a part of the discourse in accounting and management, specifically accounting and management of NPOs by providing empirical data about the topic.

2. Practical significance

The author sincerely hopes that information provided this writing about financial performance indicators can help environmental NPOs in monitoring their own financial performance in order to be able to operate more efficiently and effectively to accomplish their goal.

3. Further research

The author also hopes that this undergraduate's thesis can become a reference to do a further research on accounting and management of NPOs with larger scope and more thorough and detailed discussion.

1.5. Paradigm of Study

This research focuses on the financial performance of Indonesian environmental NPOs. Performance measurement tool used in this research is the ratios suggested by Ritchie and Kolodinsky (2003) using data from excerpts of financial statements published by WWF Indonesia. This research will compare WWF's financial ratios in 5-year time series, from 2011 to 2015 and compare these with those obtained using information from CIFOR's financial statements.

CHAPTER II

THEORETICAL BASE AND LITERATURE REVIEW

2.1. Theoretical Base

2.1.1. Theories surrounding non-profit organisations

Anheier (2005) in his book *Nonprofit Organizations: Theory, Management, Policy*, mentioned several aspects of NPOs that became the theoretical base in this research. This book includes the theoretical approaches to NPO's origins, behaviour, and impact; how and to whom NPOs are accountable, as well as how to measure an NPO's performance.

Researches surrounding NPOs generally attempt to answer questions such as why NPOs exist in market economies; how NPOs behave, and what contributions from the NPOs are. To answer these questions, researchers relied on three major theories to help explain the phenomena surrounding NPOs; namely the Public goods theory, Entrepreneurship theory, and Trust theory.

Public goods theory, proposed by Burton Weisbrod in 1975, explained that NPOs emerged as a result of the public sector's failure to supply the demand for public and quasi-public goods created by 'median voters', who represent the large, statistically average demographics in an electorate. That is to say, NPOs serve as "gap-fillers", which "exist as a result of private demands for public goods

not offered by the public sector” (Anheier, 2005:121). In the case of Indonesian environmental NPOs, they existed to supply the service of preservation of the environment as a public good which the government has normally failed to supply.

Trust theory argued that NPOs “arise in situations in which, owing either to the circumstances under which the service is purchased or consumed or to the nature of the service itself, consumers feel unable to evaluate accurately the quantity and quality of the service a firm produces for them” (Hansmann, in Anheier, 2005:124). The loss of trust to business organisations were caused by their inclinations to benefit from information asymmetries which result in unfair exchange, which eventually will lead to market failure. NPOs have an advantage over their for-profit counterparts due to their non-profit-seeking nature, causing them to be unable to unfairly take advantage of informational asymmetries.

The third major theory in relation to NPOs is the Entrepreneurship theory, which tries “to explain the existence of non-profit organisations from a supply-side perspective” (Anheier, 2005:126). Joseph Schumpeter, who proposes this theory, defines an entrepreneur as “an individual with a specific attitude toward change, whose function is to ‘carry out’ new combinations’.” NPOs are the embodiment of *social entrepreneurship*, which, unlike business entrepreneurship whose goal is to create economic value, create social values by “adopting a mission to create and sustain social value; recognising and relentlessly pursuing new opportunities to serve that mission; engaging in a process of continuous innovation, adoption and learning; acting boldly without being limited to resources currently in hand; exhibiting a heightened sense of accountability to the

constituencies served and for the outcomes created” (Dees et al., in Anheier, 2005:127).

2.1.2. Non-profit sector accountability and performance

Stakeholders were, in this book, described as “people or organizations that have a real, assumed, or imagined stake in the organization, its performance, and sustainability” (Anheier, 2005:227). Stakeholders are those who are concerned with an organisations’ ‘bottom line’. In NPOs, this bottom line is not the organisation’s profit or loss; rather, it is anything of relevance to the organisation’s nature and operations. Thus, unlike business organisations’ that generally has only ‘one’ stakeholder—the owners, NPOs has various parties who were concerned with their performance and sustainability.

NPOs are accountable to the aforesaid stakeholders, which frequently are specified as members, supporters, beneficiaries, volunteers, contractors and cooperating organisations, and public agencies, each with different form of accountability. Financial aspect of accountability is a part of an NPO’s performance accountability, along with activity fit, program oversight, and program development. An NPO’s financial accountability is of explanatory nature, where the organisation accounts an action verbally or formally.

To evaluate an NPO’s performance, this book refers to the ‘welfare model’ by Kendall and Knapp (2000), using indicators based on the notions of economy, efficiency, effectiveness, and equity. The indicators of each performance criteria are shown below:

Economy <ul style="list-style-type: none"> • Resource inputs • Expenditures • Average costs Effectiveness (service provision) <ul style="list-style-type: none"> • Final outcomes • Recipient satisfaction • Output volume • Output quality Choice/pluralism <ul style="list-style-type: none"> • Concentration • Diversity Efficiency <ul style="list-style-type: none"> • Intermediate output efficiency • Final outcome efficiency 	Equity <ul style="list-style-type: none"> • Redistributive policy consistency • Service targeting • Benefit-burden ratios • Accessibility • Procedural equity Participation <ul style="list-style-type: none"> • Membership/volunteers • Attitudes and motivation Advocacy <ul style="list-style-type: none"> • Advocacy resource inputs • Advocacy intermediate outputs Innovation <ul style="list-style-type: none"> • Reported innovations • Barriers and opportunities
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Figure 2.1
Performance criteria and indicator sets
Source: Kendall and Knapp (2000)

2.1.3. Financial ratios as a measure of performance

Altman (1968) conducted a research about the usefulness of financial ratios as an analytical technique in assessing the performance of business organisations. This research was a response to perceived disfavour of financial ratios by academics at the time due to its simplicity. Ratios were, in this study, combined in a discriminant analysis approach to predict bankruptcy of a number of manufacturing companies as samples.

The result indicated that the ratio analysis was able to correctly predict bankruptcy with extremely high accuracy. This led to the researcher proposing a practical and theoretical application of this model. The proposed applications

“include business credit evaluation, internal control procedures, and investment guidelines” (Altman, 1968).

One of the earliest introductions of financial ratios to the non-profit sector is described in a paper by Chabotar (1989), arguing that the understanding of an NPO’s financial condition is crucial in deciding the appropriate response to pressures such as “declines in governmental assistance, unfavourable economic circumstances, and greater competition for private gifts and grants.” This paper describes various ratios that are applicable by NPOs, stating that ratio analyses can serve as “an ‘early warning system’ by highlighting the aspects of an institution’s financial situation that merit further study and may require management action” (Chabotar, 1989:192).

2.2. Previous studies

2.2.1 Usefulness of financial information

Parsons (2003), in her review, questions whether accounting information from NPOs useful to donors. She quoted findings from Anthony (1983), Drtina (1984) and Cherny et al. (1992) which expressed that “donors and regulators are more interested in the efficiency and effectiveness with which not-for-profit firms operates”. Other than efficiency and effectiveness, stakeholders (referred to as ‘contributors’ in the paper) also found financial information useful to assess an organisations’ financial stability; that is whether the organisation can continue its operations (Anthony, in Parsons 2003). These researches were based on the positive accounting theory that developed around 1960’s that, in this third sector, tried to address the question whether non-profit accounting reports were useful to donors.

Parsons also quoted research from Greenlee and Trussel (2000) which stated that “financial stability measures are useful for financial statement readers in predicting financial distress of [not-for-profit] organisations.”

Based on this review, Trussel and Parsons (2007) researched the correlation between financial reporting factors affecting donations to charitable organisations. The study revealed that those factors were efficiency, financial stability, information availability, and reputation of the organisation itself. Financial stability in this research was measured by indicators such as adequacy of equity, revenue concentration, operating margin, and administrative cost ratio.

These researches demonstrate the importance of NPOs’ financial performance information, the understanding of which becomes the main motive of this research. By providing financial performance information, NPOs would be able to convince more potential donors to contribute for their cause.

2.2.2 Financial performance measurement

Ritchie and Kolodinsky (2003) proposed a method of NPOs’ financial performance measurement using financial ratios. This study presented “a process for identifying and testing a group of financial measures to ascertain their relevance and distinctiveness for a homogenous sample of NPOs.” The study entails two phases: exploratory phase which involved factor analyses of sixteen financial performance ratios—as illustrated with Figure 2.2—using both cross-sectional and longitudinal data, and application phase involving analysis of the measures obtained from the previous phase. The researchers sampled IRS Forms 990 of 362 hospital foundations for the first phase and 144 university foundations for the second phase.

These ratios describe four aspects of NPO financial performance: fiscal performance, fundraising efficiency, public support, and investment performance and concentration. Efficiency measures in this research represented funds raised relative to fundraising expenses. Public support measures indicate the “organisation’s ability to generate revenue or an index of the public support for an organisation.” Investment performance category denotes the profitability of NPO’s investment decisions.

The first phase of factor analysis led the researchers to rule out the fourth category, the investment performance and concentration due to the result demonstrating instability of this performance measure. The second phase of this study resulted in six financial performance measurement ratios that represented three remaining performance categories. This result was expected to “provide the practitioner with a parsimonious number of financial performance measures enabling relatively easy assessment of three important performance-related dimensions.”

Initial Financial Performance Measurement Ratios and Preliminary Categories

Fiscal Performance

- 1)
$$\frac{\text{Total revenue available for programs}}{\text{Total revenue}}$$
- 2)
$$\frac{\text{Total revenue}}{\text{Total assets}}$$
- 3)
$$\frac{\text{Total revenue}}{\text{Total expenses}}$$
- 4)
$$\frac{(\text{Total revenue} - \text{total expenses})}{\text{Total revenue}}$$
- 5)
$$\frac{(\text{Total revenue} - \text{total expenses})}{\text{Total assets}}$$
 (Return on Assets – ROA)
- 6)
$$\frac{\text{Net assets}}{\text{Total assets}}$$

Fundraising Efficiency

- 7)
$$\frac{\text{Direct public support}}{\text{Fundraising expenses}}$$
- 8)
$$\frac{\text{Total revenue}}{\text{Fundraising expenses}}$$

Public Support

- 9)
$$\frac{\text{Total contributions}}{\text{Total expenses}}$$
- 10)
$$\frac{\text{Total contributions}}{\text{Total assets}}$$
- 11)
$$\frac{\text{Total Contributions}}{\text{Total Revenue}}$$
- 12)
$$\frac{\text{Direct public support}}{\text{Total assets}}$$

Investment Performance and Concentration

- 13)
$$\frac{\text{Return on securities}}{\text{Total securities}}$$
- 14)
$$\frac{\text{Net gain/loss on sale of securities}}{\text{Total securities}}$$
- 15)
$$\frac{\text{Net Cash and savings}}{\text{Total assets}}$$
- 16)
$$\frac{\text{Total securities}}{\text{Total assets}}$$

Figure 2.2
Initial financial ratios used in previous researches
Source: Ritchie and Kolodinsky (2003)

2.2.3 Non-profit sector compliance to PSAK 45

Most of the studies on compliance to Indonesian Statement of Financial Accounting Standard (PSAK) No. 45 were conducted in religious institutions as part of undergraduate theses. A study by Muhammad (2006) analysed the financial accountability of *zakat* (Islamic religious tax) fund institutions (*Organisasi Pengelola Zakat—OPZ*) in Yogyakarta. The researcher found that the *zakat* fund institutions did not have an adequate accounting system and internal control and failed to comply with PSAK 45. Similar results were encountered by Ibrahim and Handayani (2009), which stated that Baitul Mal Aceh, also a *zakat* fund institution, had complied with the standard to an extent, but the institution did not follow the prescribed reporting guidelines. The *zakat* fund also did not make its financial statements available to the public.

To date, the author has not found any research regarding Indonesian environmental NPO's compliance to PSAK 45, which also became a motivation to conduct this research. WWF Indonesia has provided (parts of) its audited financial statements on their website. The compliance of these statements to PSAK will be further discussed in Chapter IV.

2.2.4 Phenomenology study on WWF Indonesia

Fikri, et al. (2010) conducted a 'phenomenology study' of non-profit organisation accountability in Indonesia with WWF Indonesia as a subject. The study was undertaken on the grounds of perceived importance of NPOs due to "many criticisms and problems associated with this sector". The researchers found

that WWF Indonesia “does not publish financial statements”, as the “public requires behavioural accountability rather than [financial] reporting.”

The fieldwork for this research was conducted in WWF’s operation base/field office in Mataram, Nusa Tenggara Barat due to WWF’s “low accountability ranking” per Kovach (2003) and the field office’s direct contact with the society with whom it worked. The researchers interviewed the ‘manager’ of the said field office and several staffs, one international staff, and audit manager, as well as three members of local community, which consists of one reforestation project foreman and two anonymous community members.

In the discussion section of the paper, the researchers stated that one limitation of the study was that it only managed to cover operation locale. Nonetheless, there are a few problems with the study that the researchers neglected to address. The study concluded that the Nusa Tenggara field office failed to produce financial reports due to WWF’s central management’s accounting policy. However, the researchers did omit the description of the nature (i.e. the legal form) of the aforesaid field office and the organisation’s management model; whether it was given a high degree of autonomy to manage a material portion of the whole organisation’s financial resources.

The conclusion made by the researchers also lacked criteria that state whether the field office with such size and scope of operations (which they also made unclear in their research paper) is obligated to publish its own financial statement. Indonesian accounting standard that regulates non-profit financial reporting, PSAK 45, does not specify whether each subdivision/unit of a non-profit body has to disclose its own financial statement.

The other concluding statement regarding public demand of NPOs' accountability was also short of supporting information. Researchers did not mention in their paper whether the interviewed members of the local community were the beneficiaries of a specific WWF (or its examined field office's) program, or other subjects of the organisation or entity's accountability, such as supporters and oversight bodies (Anheier, 2005), putting the relevance of this opinion in question.

The research conducted in this undergraduate thesis attempts to obtain a deeper understanding about WWF Indonesia's operation which the previous research failed to address, in order to help Indonesia's environmental organisation to meet its demand for accountability.

2.3. Hypothesis

This study is an attempt to paint a picture of the condition of Indonesian environmental NPOs' financial performance, which will be conducted mainly at the Indonesian branch of World Wildlife Fund (WWF). This study involves an evaluation of WWF's financial performance by calculating and interpreting a set of financial ratios as well as reviewing the compliance of the organisation's financial reporting to PSAK 45.

Referring to research by Trussel and Parsons (2007), factors that determine an NPOs financial performance are efficiency, financial stability, information availability, and reputation. For hypothesis-building purposes, the author will focus on WWF's reputation factor to arbitrarily conjecture the organisation's performance.

An NPO's reputation is measured by the organisation's age, size, government grants and indirect donations, and program and other revenues. WWF Indonesia was first established in 1965, and last year, the organisation reported a total asset of Rp157,4 billion and a total revenue of Rp308,3 billion. Compared to CIFOR's reported 2015 total assets of \$42 million or roughly Rp560 billion, and Greenpeace Indonesia's 2014 total assets of Rp8 million, the author would assume that WWF Indonesia is classified into a large-sized organisation.

Based on local research conducted by Fikri, et al. (2010) which concludes that "public requires, behavioural accountability rather than reporting", putting its limitations aside, one would assume that Indonesian environmental non-profit organisations do not disclose sufficient financial information to the public and tend to focus on non-financial performance indicators. Therefore, the author hypothesises that while they may have measured their financial performance adequately, the application of information produced by said measurements has been limited.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Type of research

This research is intended to be an exploratory research that delves into financial performance of Indonesia's environmental NPOs. In an attempt to obtain a concise yet thorough description of the matter, this research is conducted with both quantitative and qualitative method. The quantitative part of this research consists of calculation and interpretation of select financial ratios, while the qualitative part of this research encompasses the qualitative analysis of PSAK 45 and financial reporting process in the subject and interview with (a) representative(s) of the subject's management.

The ratios used to measure financial performance in this research are based on the results by Ritchie and Kolodinsky (2003). Factor analysis results indicated that six ratios compiled from previous researches that represent three performance categories—shown in Figure 3.1—have shown high level of consistency in both phases of the research. These ratios are applied to WWF Indonesia's financial information in a five-year period, from 2011 to 2015 in order to describe the trend of its performance, as well as to financial statements from three other Indonesian environmental NPOs to compare the subject's performance with organisations in

the same ‘industry’. These organisations are CIFOR, Greenpeace Indonesia, and Borneo Orangutan Survival (BOS) Foundation Indonesia.

Financial Ratios used to measure environmental NPOs’ performance	
Fiscal Performance	
1)	$\frac{\text{Total revenue}}{\text{Total expenses}}$
Fundraising Efficiency	
2)	$\frac{\text{Direct public support}}{\text{Fundraising expenses}}$
3)	$\frac{\text{Total revenue}}{\text{Fundraising expenses}}$
Public Support	
4)	$\frac{\text{Direct public support}}{\text{Total assets}}$
5)	$\frac{\text{Total contributions}}{\text{Total expenses}}$
6)	$\frac{\text{Total Contributions}}{\text{Total Revenue}}$

Figure 3.1
Financial ratios based on results by Ritchie and Kolodinsky (2003)

The qualitative part of this research was designed to achieve research objectives number 2 and 3 mentioned in the first chapter. The method used to assess WWF Indonesia’s compliance to PSAK 45 involves the identification of key aspects of the statement of accounting standard and comparison to the current accounting practice carried out by the organisation.

To accomplish the third objective of this study, which is to observe how the management measures financial performance and how the information is applied in decision-making, this research incorporates the result of an interview with members the organisation’s Finance and Management Services team surrounding the application of this performance measure and its application. The interview is conducted in a semi-structured manner, where a prescheduled

dialogue around a set of open-ended questions with other questions emerging from it. (DiCicco-Bloom and Crabtree, 2006). The list of questions used in the interview is available in Appendix 1.

3.2 Population and sample

For the quantitative part of this research, as well as the PSAK compliance analysis, a set of data defined as the ‘population’ is all of WWF Indonesia’s publicly available financial information ranging from year 2006 to 2015, or a total of 10 financial statements. This study analyses five most recent financial statements, from year 2011 to 2015.

As for the interview part of this study, the population is defined as all members of WWF Indonesia’s Finance and Management Services team. The preferred interviewees are those who are of higher position in the team’s hierarchy.

3.3 Data collection methods

The methods planned to obtain data required for this research are as follows:

3.3.1 Archival study

This method includes obtaining secondary data and collection, reading, and analysis of information in various forms, such as scientific literatures, legislations, acts, and regulations, financial reports and the notes to the financial reports, annual reports and/or other accountability reports, correspondence items, news published in print and/or online media, and other forms of publications concerning the object of study.

3.3.2 Interviews

This method entails dialogues with persons that are competent and representative of the parties and/or entities related to the object of study to obtain relevant information. The preferred interview method is personal interview. Telephone interview is less desirable but is an alternative if and when personal interview is infeasible.

3.4 Data analysis methods

This research will attempt to translate numerical information obtained by calculation of aforementioned ratios into qualitative description of an organisation's financial position. The ratio values will then be compared with those from previous years to determine the trend of subject's financial performance, and compared with values from three other Indonesian environmental NPOs to obtain a description of the subject's performance in relation to other institutions with similar cause.

Analysis of the data obtained from interview "occurs concurrently with data collection" to the point where there would be no new categories emerged in the conversation and a theme has developed. This process is also known as 'saturation', which signifies that the data collection has been completed (DiCicco-Bloom and Crabtree, 2006). The result of this analysis, as well as highlights of the interview, will then be addressed in this writing in order to provide better understanding about the topic.

CHAPTER V

SUMMARY AND DISCUSSION

5.1 Summary

This research attempted to provide a description of how Indonesian environmental non-profit organisations (NPOs) financially perform during the observed 5-year period; whether said organisations comply to the prevailing accounting standards in Indonesia, as well as an observation on how the focus subject—in this case, WWF Indonesia—evaluates its financial performance and applies the result of said evaluation in decision-making processes. Using ratio analysis, supported by data obtained through interview and archival study, several conclusions can be drawn.

In the previous chapter, the financial performance of WWF Indonesia as a focus subject is evaluated by considering six financial ratios previously factor-analysed by Ritchie and Kolodinsky (2003), which represent three financial indicators: fiscal performance, fundraising efficiency, and public support. During the observed 5-year period, WWF Indonesia displayed an overall favourable fiscal performance, as the total-revenue-to-total-expenditure (*TR/TE*) ratio displayed values more than 1, with the exception of year 2013, where the total expense exceeded the total revenue. This downturn, however, was caused by the spending

of a carry-forward revenue contracts that was signed in the previous year, and in practice, the foundation was still able to fund its activities.

The direct-public-support-to-fundraising-expense ratio (DPS/FE) and total-revenue-to-fundraising-expenses ratio (TR/FE) demonstrated WWF Indonesia's highly efficient fundraising activities, with average values almost equal to 13, meaning every rupiah spent for fundraising activities results in 13 times worth of public support and revenue. The foundation also significantly outperformed other NPOs in fundraising efficiency, with average ratios almost equal to 9. However, WWF's efficiency rate experienced a downtrend over the observed 5-year period due to increasing investment to solicit more supporters, the return of which was expected to be realized in over the observed time period.

The public support ratios indicated that WWF Indonesia, like the rest of observed environmental NPOs, received sufficient endorsement from Indonesian public consisting of individuals and corporations. The foundation's direct-public-support-to-total-asset ratio (DPS/TA) displayed a value of 1,88; meaning each rupiah of WWF Indonesia's assets generates almost two times worth of public contribution. The average total-contributions-to-total-expense ratio (TC/TE) of 1,04 can be interpreted as that all of the foundation's activities were funded by revenue from donations and grants by the public, where greater-than-one value indicate surplus, and the average total-contributions-to-total-revenue ratio (TC/TR) of 1,00 illustrated that all of the revenue earned by the organisation consisted of public contributions, and other revenues (such as interest income, gain on foreign exchange translations, and other income) proved to be extremely insubstantial or non-existent. Unlike the fiscal performance ratio or fundraising

efficiency ratios, public support ratios examined in this study were invariable and constant in all observed NPOs due to lack of government support element in their revenue. When compared to other NPOs, WWF Indonesia's public support ratios outperformed those of the rest by minuscule margins.

In addition to positive performance implied by financial ratios, financial information provided by WWF Indonesia had been fairly presented and in accordance with accounting standards for non-profit organisations that apply in Indonesia, as supported by unqualified opinions issued by *Big Four* public accountants. All other NPOs examined in this study also presented financial statements audited by members of international network of certified public accountant offices with unqualified opinions, which means in general, Indonesian environmental NPOs had met the demand for financial accountability by their stakeholders.

While financial ratios used in this study had been developed and statistically tested by other researchers such as Siciliano (1996) and Ritchie and Kolodinsky (2003), officials in WWF Indonesia expressed unfamiliarity towards this measure of performance. They also indicated unoptimistic behaviour towards the applicability and application of financial ratios to evaluate financial performance in their organisation. They highlighted the method's lack of ability to provide specific information needed to improve performance, as opposed to their regular performance evaluation that involves comparison between budget and realisation which they believed to have had been concise and effective, which enabled them to successfully execute the foundation's programs, as well as useful for the management and potential donors.

Despite perceived favourable performance, WWF Indonesia called attention to the low participation level from individual donors, which they attributed to the general society's low financial capacity to donate as well as their low awareness of environmental issues. The organisation tries to overcome this problem by launching programs intended to educate the public about said issues; their gravity, and how people can contribute to mitigating their impact. Officials in WWF Indonesia also conjectured that their performance depends on individual donors' level of trust in their organisation, which they perceived to be lower than in faith-based organisations, due to public's high regard towards religion. However, previous studies show that religious devoutness and environmentalism can be compatible.

5.2 Discussion

The study of non-profit sector in Indonesia has been somewhat eclipsed by the abundance of researches on the other two sectors of the economy, in spite of the increasing importance of their contribution. This research provides a rudimentary description of the state of Indonesian environmental NPOs' financial performance using ratio analysis which indicate an overall satisfactory performance; favourable fiscal performance, high fundraising efficiency, and substantial public support. This research also found that environmental NPOs had met public demand for accountability by providing financial statements audited by *Big Four* accounting firms who confirmed their fair presentation as well as compliance with PSAK 45 as the generally accepted accounting standard for non-profit organisations in Indonesia. This research had also shed limited light on how

Indonesian environmental NPOs monitor their financial performance in practice, in order to be able to successfully accomplish their missions.

This research has also addressed previous researches such as by Fikri et al. (2010), disproving their claim that WWF Indonesia “does not publish financial statements”. This study offers an explanation that the foundation does publish audited financial statements annually, presenting the organisation’s financial information as a whole including its Jakarta head office as well as its 28 administrative offices and other operation bases spread across the nation, one of which might have been the subject of previous researchers’ focus subject. This research also concurs with another claim made by previous researchers that the general public, whether acting as WWF Indonesia’s stakeholders as suggested in their research or as the foundation’s potential donor as viewed through the point of view of this study, demand non-financial form of accountability more than financial information.

This research also expanded the breadth of non-profit studies in Indonesia, where previous researchers such as Muhammad (2006), and Ibrahim and Handayani (2009), who studied religious NPOs and found that aforementioned organisations do not publish financial statements and/or fail to comply with PSAK 45. This study adds perspective from environmental NPOs where the observed subjects had been able to make their financial statements available to the general public and comply to the prevalent accounting standard.

5.2.1 Limitations

Many researchers and practitioners have pointed out the limitations of ratio analysis as a measure of financial performance of NPOs. Ratios alone can never

present adequate information whether an organisation is in advantage or distress, as they were designed to serve only as “one of the factors that should guide management in decision making” (Chabotar, 1989:191). This limitation has been confirmed by one of the correspondents in this study, stating that financial ratio could not provide management with specific and detailed information about which area might need an improvement. Financial ratios for NPOs also “lack of benchmarks for comparable not-for-profit organisations that provide generally accepted targets” (Wilson, et al. 2010).

Ratios used in this research can only provide a crude description of the state of Indonesian NPOs financial performance. The ratios represented the focus subject’s going concern, efficiency, and ability to generate revenue. Other performance criteria such as liquidity, leverage and/or dependence on revenue source remain unobserved, as there had been no prior studies that confirmed the validity of measures representing aforementioned criteria.

It is also important to note that NPOs vary greatly in size, organisational structure, and field of activity. Methods employed and/or conclusions drawn in this research may not apply to other NPOs with different size, structure, and field. For example, a relatively large place of worship may not incur fundraising expenses due to usage of offering basket or caretakers’ voluntarism; or, the amount of direct public support of a health, education, or humanitarian aid NPO that may be eligible and/or have received grants from the government of Indonesia in the form of ‘*Bansos*’ (abbr. *Bantuan sosial*, en: ‘Social aid’) would not equal the amount of total contribution

5.2.2 Recommendations

Based on findings in this study, the author would like to propose several recommendations.

1. For Environmental NPOs

To counter the issue of low participation of individual donors with high religious propensity, environmental NPOs can consider to forge a cooperation with religious educational institutions to gain a deeper understanding about issues surrounding faith and environmentalism, such as the development of Islamic Environmental Paradigm (IEP). When said understanding has been achieved, environmental NPOs must find a sensitive, politically correct way to disseminate information that help developing awareness of environmental issues among the religious community.

2. For Academics

As a measurement tool, financial ratios used in this research still needs improvement to be able to present an indication of an organisation's financial performance more accurately. The author would like to encourage academics to perform more studies surrounding NPOs in order to supply the much-needed demand of supporting data. With more data available, improvements in accuracy and benchmark-setting for NPO financial performance will be possible.

Through this thesis, the author would also like to invite the general public to develop higher awareness towards environmental issues as they significantly affect the lives of communities everywhere in the world. Actions are also

necessary to lessen the effect of environmental degradations. Donating to or volunteering with environmental NPOs is one way of contributing in the effort, but smaller actions, such as switching off lights when leaving the house, using public transportations, and decreasing use of plastic bags, is equally, if not more, important and have a more powerfully positive effect on the environment when done together as a community.

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