Green Accounting Adoption Toward Sustainable Performance

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"Green Accounting and Its Implementation in Indonesia", Efektor, 2020) Arjuni\_Andi,\_K.\_Petta\_Lolo,\_Alimuddin,\_Hamid\_Habbe,\_Mediaty,\_Maulana\_K.\_Andi.\_"Green\_Accounting and\_lts\_Implementation\_in\_Indonesia", Efektor, 2020 3% match (Internet from 21-Sep-2022) 4 http://www.growingscience.com/msl/Vol11/msl 2021 38.pdf 2% match (Internet from 12-Feb-2023) 5 https://www.researchgate.net/profile/Maya-Indriastuti paper text: 5Green Accounting Adoption Toward Sustainable Performance Maya Indriastuti1,2(B), Anis Chariri1, and Fuad1 1 Department of Accounting, Faculty of Economics and Business, Universitas Diponegoro, Jalan Erlangga Tengah, Semarang, Indonesia maya@unissula.ac.id, anis\_chariri@live.undip.ac.id, fuad@lecturer.undip.ac.id 2 Department of Accounting, Faculty of Economics, Universitas Islam Sultan Agung, Jalan Raya Kaligawe KM 4, Semarang, Indonesia Abstract. 5Small and medium enterprises (SMEs) play a strategic role in con-tributing to the environment, society, and surrounding communities. One of the SMEs is from the batik industry, identified by the Ministry of Environment as one of Indonesia's worst causes of river pollution. Excessive water, dye materials, and kerosene stoves cause environmental pollution. Several studies reveal that the batik industry produces quite high CO2 emissions. If batik entrepreneurs do not immediately realize it, it has the potential to lower performance and environmen- tal sustainability; thus, green accounting is expected to affect sustainable perfor- mance. This study examines green accounting on sustainable performance with financial performance as an intervening variable involving batik SMEs in Central Java, Indonesia. This research contributes to the literature on green accounting practices by looking at how SMEs in Central Java of Indonesia take their social roles thoughtfully. Keywords: Green accounting · Financial performance · Sustainable performance · Central Java SMEs 1 Introduction Currently, Batik SMEs in Indonesia is one of the SMEs that produce high enough CO2 emissions, causing damage to the natural environment [1]. Most industries, especially SMEs, face environmental performance problems and low environmental awareness. It is due to the orientation of SME owners who only focus on profit. As a result, they cannot respond to the demands of stakeholders and the surrounding community. Moreover, during 3the company's movement toward a green company, the industry needs to consider waste processing and the needs of the consumer community. They also must focus on the production process 3of an item, from raw materials to the disposal of a product , and make sure that it does not harm the environment. The study [2] confirms that organizations continue to seek legitimacy by aligning social values and norms with industry values and maintaining the alignment of these © The Author(s), under exclusive license to Springer Nature Switzerland AG 2022 L. Barolli and H. Miwa (Eds.): INCoS 2022, LNNS 527, pp. 264-273, 2022. https://doi.org/10.1007/978-3-031-14627-5\_26 Green Accounting Adoption Toward Sustainable Performance 265 two values. As long as industry values or standards align with social values, the industry will gain legitimacy and support from stakeholders [3]. [5] added that internally, the role of green accounting can motivate managers to reduce the environmental costs incurred, which will affect decisions. It also will form the basis of the company's existence in the future. The concept of environmental accounting is a development of environmental man- agement. 3In the mid- 1990s, IASC (The International Accounting Standards Committee ) developed the idea of international accounting principles. This principle includes the development of environmental accounting. Apart from being an economic institution, companies are also social institutions. Thus, it is hoped that companies can progress and develop with the community around the company. [6] explained that the green accounting concept is prepared to internalize various externalities due to industrial processes. Green accounting activities can increase investor confidence to make sustainable investments [7] that are low-carbon and climate-resistant. It means, responsible and consistent investments with environmental ethics (such as reducing carbon emissions, green energy, green costs and green technology) will have an impact on increasing financial performance towards sustainable performance. However, this activity involves very high cost increases if the industry is in a period of financial uncertainty [8]. Several studies have also examined several factors that affect financial performance [6, 9–15]. Other studies also reinforce these findings [16–22]. Furthermore [23–31]; also researched factors that enhance financial performance. Meanwhile, a study on company reputation and consumer loyalty was conducted by [32]; and research on sustainable performance was observed by [33, 34]. This research contributes to the guidelines: (1) for investors to invest by considering the company's business continuity. A good company is a company that discloses all financial, social, and environmental information in subsequent company reports; (2) for SMEs, as a strategy to increase profits without harming the environment; and (3) for the Cooperatives and SMEs, as a reference for formulating regulations related to business and 1the environment. 2 Literature Review and Hyphotesis Development 2.1 Literature Review Green accounting 1includes the indirect costs and benefits of economic activities, such as environmental impacts and health consequences of business planning and decisions [35]. [36] stated that green accounting identifies, measures, presents, and discloses the 1costs associated with the company's activities related to the environment . Green account- ing demands 3full awareness of companies and other organizations that benefit from the environment. Companies or other organizations must increase efforts to consider environmental conservation sustainably. 3The use of environmental accounting concepts for companies encourages the ability to minimize environmental problems [36]. [37] described that there are several types of activities that reflect green accounting practices in companies, namely: (1) 3the use of environmentally friendly raw materials, (2) the 266 M. Indriastuti et al. waste management that does not cause pollution or damage to the surrounding environ- ment, and (3) corporate social responsibility as the proof of the company's concern for the environment around the environment. [38] defined financial performance as the real financial condition of a company by applying agreed standards and criteria to achieve the desired performance in a certain period. 1The company's financial performance is also the result of many individual deci- sions made continuously by management , where there is a 1determination of certain steps that can assess the success of a company in generating profits [39]. In other words, the company's financial performance can be seen from the level of company profitability [40, 41]. Sustainable performance is a balanced performance 2based on three aspects: people- planet-profit, also known as the Triple **Bottom Line concept** . [42] suggested that an organization's sustainable performance refers to its ability to meet the needs and expec- tations of customers and other stakeholders in the long term. It is balanced by effective organizational management through the awareness of the organization's staff by studying and implementing appropriate improvements and innovations. 2.2 Implementation of Green Accounting in Indonesian SMEs There is no legal regulation of green accounting applications specifically for SMEs. Only private companies have the regulation of green accounting applications, as explained in [43], which is a follow- up to [44]. The law states that every company that runs its business in fields related to natural resources has social and environmental responsibilities. [45] showed two out of three batik SMEs in Jember Regency, East Java, already have a good understanding and concern for protecting the environment as a form of implementing green accounting. The lack of understanding and concern in some SMEs batik owners is due to the selftaught ability, low experience, and low level of education in managing business and environmental costs. [46] concluded that the batik industry in Kampung Batik Laweyan, Surakarta, Central Java, is categorized as moderate or good enough to the environment but did not have an environmental audit report to audit environmental programs, funds and performance. In addition, public awareness is still low, which is reflected in only ten batik companies participating in WWTPs (wastewater treatment plants) because capacity is still limited. [47] stated that Lele Soy Sauce Factory in Pati, Central Java, has implemented green accounting for factory waste. However, there are no green costs to guarantee the green accounting funds. [48] found that the understanding of green accounting for tofu and tempeh SMEs in Bandar Lampung, Indonesia, is still low because the interests of tofu and tempeh SMEs are still focused on business profits, not on product quality and environ- mental quality. [49] added there was no different attention between large and medium- sized industries in Semarang regarding environmental problems. The differences were found in terms of environmental audits. 2.3 Empirical Research Model The empirical model of this study is developed from a combination of studies on green accounting, financial performance, and sustainable performance (Fig. 1). Green Accounting Adoption Toward Sustainable Performance 267 Fig.1. Researchmodel 2.4 Hypothesis Development 2.4.1 Green Accounting and Financial Performance Green accounting measures the impact of human activities on the earth's ecological systems and resources, not just the financial impact of these activities but also including costs for environmental preservation [36]. Implementing green accounting in compa- nies can improve their financial performance because financial performance will show whether the company's financial condition is good or bad. The measurement of the com- pany's financial performance uses financial ratios that show changes in the company's financial condition and the company's potential in managing company assets. The study results [50] showed a positive relationship between environmental disclosure and ROA. It implies that companies with better financial performance prove it through environmental/CSR disclosures in annual reports. Several studies have shown the same results: [23, 51–55], stating that CSR carried out by companies is positively related to financial performance. [56] added that SMEs also carried out social responsibility in Ghanaians, where social responsibility can improve financial performance. In conclusion, finan-cial performance can be improved through environmental management [22–30, 57], environmental accounting [58]; green investment and CSR investment [59]. The results of this study indicate that two of the three business actors who produce batik in Jember Regency, East Java Province, already have a good understanding and concern for protecting the environment as a form of implementing green accounting. Although they have not understood the details of business expenses and environmental costs, they have realized that environmental costs are their responsibility. H1: The adoption of green accounting can improve financial performance. 2.4.2 Green Accounting and Sustainable Performance Green accounting is a concept where the company prioritizes efficiency and effectiveness in using resources sustainably in its production process. It aims 1to align the company's development with environmental functions and benefit the community [60]. In ensuring the company towards sustainable performance, the company must build a relationship 268 M. Indriastuti et al. with the environment by preserving 3the environment. The adoption of green accounting within the company is evidenced by social responsibility that must be carried out and supported through socially responsible investments. It is both through financial perfor- mance and non-financial criteria in environmental management and problem-solving in the social sphere [42]. [61] stated that companies must provide benefits to their stake- holders, such as the welfare of employees, customers, and the surrounding community. It seeks to establish good 3relations between the company and the surrounding environment to improve its sustainability performance. 3The company's sustainable performance can be improved by green investment activities [33, 35, 52, 62, 63], CSR investment [13, 31, 34, 64]. H2: The adoption of green accounting can enhance sustainable performance. 2.4.3 Financial Performance and Sustainable Performance [ 265] defined financial performance as the company's efforts to earn revenue and growth. [66] added that financial performance in a period can be used to measure the achieve- ment of company performance, decision-making by investors, and additional capital for company management. The better the company's financial condition, it can minimize internal risk because investors get good information from the financial performance . [67, 68] believed that financial performance could push companies towards sustainable performance. It is in line with the results of research [69] that there is a relationship between the level of disclosure of environmental information and the return on company assets. H3: Financial performance can intensify sustainable performance. 3 Research Method 3.1 Population and Sample The population in this study were all batik SMEs in Central Java, including Pemalang Regency, Pekalongan City, Semarang City, and Pati Regency. The sample of this research is the batik SMEs in four districts/cities in Central Java, namely Pemalang, Pekalongan, Semarang, and Pati, with 300 respondents. Sampling used a purposive sampling method based on the consideration of Batik SMEs operating for at least five years and still exist today. 3.2 Data Collecting Plan Data collection planning includes primary data and secondary data. The primary data is collected using a questionnaire instrument, which contains questions/statements that reflect the dimensions and indicators of green accounting, financial performance, and sustainable performance of SMEs. Meanwhile, the secondary data is obtained from the Central Java Bureau of Statistics [70, 71]. Secondary data were taken from the number of batik SMEs and sales turnover. in which: FP: Financial Performance SP: Sustainable Performance  $\alpha$ : Constant  $\beta$ 1– $\beta$ 2: Regression Coefficient GA: Green Accounting e1, e2: Error. Green Accounting Adoption Toward Sustainable Performance 269 3.3 Measurement Variable The green accounting variable is measured by operational, waste recycling, and research costs [72]. Financial performance variables are measured by: sales, income, and profit [20]. Meanwhile, the variable of sustainable performance is measured by economic, environmental, and social [73] and [74] dimensions. All indicators of each variable are calculated using a Likert scale of 1 to 5, 1 for strongly disagree and 5 for strongly agree. 3.4 Data Analysis Plan The data analysis technique of this study is processed using multiple linear regression analysis [75]. The regression equation of this research is as follows: FP =  $\alpha$  +  $\beta$ 1GA + e1 SP =  $\alpha$  +  $\beta$ 1GA +  $\beta$ 2FP + e2 (model 1) (model 2) Meanwhile, the mediation hypothesis was tested 4using a procedure developed by Sobel [76] and known as the Sobel test. The Sobel test examines 4the strength of the indirect X to Y through I. The formula is as follows: in which: sab = b2sa2+ a2sb2 + sa2sb2 ? 4sab: the error standard of indirect influence a: independent variable path (X) with intervening variable (I) b: intervening variable path (I) with the dependent variable (Y) sa: error standard coefficient a sb: error standard coefficient b. 4 Conclusion The batik industry is one of Indonesia's growing industries and contributes a lot to industrial waste. Unfortunately, there are no legal rules of green accounting specifically for SMEs. Therefore, it is necessary to adopt green accounting in Central Java Batik SMEs in Indonesia towards sustainable performance. This research implies adding a reference for Batik SMEs to care for and be aware of batik waste on the environment. 270 M. Indriastuti et al. References 1. www.kemenperin.go.id 2. Dowling, J., Preffer, J.: Organizational legitimacy, social values and organizational behavior. Pac. Sociol. 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