CHAPTER I

INTRODUCTION

Background

"Green business" has become an important issue for global business managers (Gonzalez-Rodríguez et al., 2021; Yusliza et al., 2020). Green business refers to company activities that eliminate and reduce the negative impact of business on the environment and society (Merli et al., 2019). Environmental pollution and resource shortages have become the main driving forces of the green movement worldwide (Wong et al., 2021; Chang, 2011). The green movement has certainly become a fundamental issue in Indonesian companies, under the pressure of the green movement, companies need to consider effectively utilizing scarce resources to engage in green business and produce green products to meet consumer demand while reducing the negative impact of their business on the environment (Yong et al., 2019). Furthermore, green business is increasingly receiving great attention from companies in various industries and various research fields (Yusliza et al., 2020). The use of the green movement has an impact on sustainability reporting which is used to reveal organizational practices that affect the economy, the environment, and society in general (Grubnic&Birchall, 2014).

Sustainability is about demonstrating social responsibility and sound corporate governance practices, such as creating safe working conditions, securing employee health, encouraging employee development, preventing negative environmental impacts, and facilitating social and economic development (TIFAC, 2008). Meanwhile, sustainability accounting is an organization's reaction to its social and environmental responsibilities (Burritt &Schaltegger, 2010).

Sustainability accounting and reporting is the practice of measuring, disclosing, and accounting for company performance to stakeholders with sustainable development goals (GRI, 2011). Public sector organizations including policies, strategies, too many and programs on the results of sustainability operational and environmental impacts are the role and scope of sustainability accounting and reporting (Rinaldi et al., 2014). In addition, the great potential of sustainability accounting and reporting is to contribute to sustainable development by incorporating sustainability into the core goals and objectives of organizations and companies (Rinaldi et al., 2014). Sustainability accounting is very important for corporate management purposes because it deals with social, environmental, and economic factors which comprise the three pillars of sustainability (Schaltegger et al., 2006). Sustainability accounting and reporting are derived from traditional accounting methods, where management accounting is concerned with supporting organizational internal processes in financial management and reporting offering financial accounts of organizational performance (Burritt &Schaltegger, 2010). Stakeholder engagement has emerged as an important tool to gain and retain stakeholder support, especially those with power, to influence the achievement of corporate goals which are usually associated with profit maximization (Rinaldi et al., 2014). In addition, sustainability reporting has a very clear goal of improving the company's public image rather than reducing the company's footprint on the environment or improving society (Dumay et al. 2010).

The company's awareness of the environment raises the idea to take action to care for the environment as a consequence of the company's operational activities. This awareness supports the emergence of green accounting in companies. Green accounting is an accounting process that combines the collection, measurement and reporting of financial, social and environmental information into an accounting reporting package that assists research in stakeholder decision-making (Yuliana &Sulistyawati, 2021). However, green accounting is specifically concerned with identifying, measuring, and allocating environmental costs, integrating costs into the company's business, and recognizing the environment in companies and society (GRI, 2011).

Green accounting aims to provide information about a company's business performance based on environmental protection so that companies cannot arbitrarily process resources without considering the impact (Yuliana&Sulistyawati, 2021). Green accounting important tool to gain an understanding of the role of business enterprises in an economy toward environmental safety and well-being (Andon et al., 2015). Green accounting also provides data, highlighting the contribution of business enterprises to economic well-being, costs imposed in the form of pollution or degradation of resources and contributions to society (Maama&Appiah, 2019).

Managers have a responsibility to guide their company to achieve the goals and objectives that have been set. therefore requires skill and agility as well as better knowledge management with excellent decision making. The term “knowledge” has been viewed and defined from different perspectives (Abubakar et al., 2019). Knowledge is an intangible asset and plays an important role in the success or failure of any company (Ooi, 2014).

Dynamic companies see it as a tool that enables them to increase customer satisfaction and compete successfully in the market (Attia&Salama, 2018; Mothe et al., 2017). Over the past two decades, knowledge management has received significant attention in the business world and has been recognized as an important element in strategy design, the development of new products and services in the management of operational processes (Mardani et al., 2018; Qasrawi et al., 2017; Yusr. et al., 2017). Some companies consider knowledge management a strategic resource, enabling them to outperform their competitors (Bolisani&Bratianu, 2018). Therefore, intellectual capital is also an important factor in facing the challenges of corporate competition, especially in the community ecology sector (Massaro et al., 2018). In this case, environmental capabilities and green assets, complement the business to enhance the company's image and minimize the adverse environmental impact on society when involved in the company's routine operations (Dameri&Ricciardi, 2015).

The importance of intellectual capital as a determinant of innovative capacity in organizational settings (Andreeva et al., 2021; Asiaei et al., 2020; Buenechea-Elberdin et al., 2018; Kianto et al., 2017). Over the past few decades, increasing institutional, legal and consumer-related pressures have driven companies to place environmental and social concerns as top priorities. As an example of this environmental pressure, as of July 2021, 1,006 climate change litigation cases were filed since 2015 (Higham, 2021). While most of these cases are brought before the government, a growing number of cases are also targeting the private sector (Setzer& Byrnes, 2019).

Organizations have initiated new capabilities, for example, advanced management systems, environmental innovation, and integration of stakeholder demands, to pave the way for environmentally sustainable economic practices (Alvino et al., 2021). These environmental capabilities or green assets are important corporate resources for operations while minimizing adverse environmental effects (Hart & Dowell, 2011). It is said that “environmental capability is part of intellectual capital because it refers to the intangible assets created by management. Knowledge relates to including environmental variables in the value creation process” (Albertini, 2021, p. 2).

Studies documenting the importance of intellectual capital since the 1990s, research on how intellectual capital is green (i.e. intangible stock of assets, knowledge, and capabilities, which incorporate aspects of environmental protection and green innovation, hereinafter GIC) is used in the creation process value (Chang & Chen, 2012; Chen, 2008; Lopez-Gamero et al., 2011). Indeed, empirical studies rarely explore the mechanisms by which green intellectual capital affects environmental performance, “the effectiveness of firms in meeting and exceeding societal expectations regarding care for the natural environment” (Judge & Douglas, 1998, p. 245). According to Asiaei, Bontis, Alizadeh et al., (2022), Understanding the process of intellectual capital translates into value creation and environmental performance is key to understanding the problems with the company's past efforts to address sustainability issues (eg, greenwashing) and the real issues that must be addressed in the future. The question of how to translate organizational practices to meet a green agenda has been described as a “no-go area” of innovation as it affects an organization's ability to optimize its operations and the allocation of its resources (Jusoh et al., 2021). Green intellectual capital, which includes green human capital, green structural capital, and green relational capital, is often seen as a strategic resource for companies because companies that have green knowledge, skills, experience, organizational structure, organizational culture, management systems, and network of relationships are more likely to form green capabilities that help build competitive advantage (Liu, 2010; Yong et al., 2019).

Previous research has shown that green innovation contributes to organizational success, including improving sustainability reporting performance (Kraus et al., 2020; Singh et al., 2020). Correspondingly, previous studies have shown that ambidextrous firms, which excel in exploitative and exploratory innovation, tend to achieve better environmental performance (Lee et al., 2018; Lin & Ho, 2016). The assumption that ambidexterity can improve environmental performance refers to the central premise of ambidexterity theory, which states that "firms that can simultaneously pursue exploitation and exploration are more likely to achieve superior performance than firms that emphasize one at the expense of the other" (Raisch&Birkinshaw, 2008, 392).

Research Question

Lack of compliance with sustainability reporting in Indonesia, a study was conducted to determine compliance with sustainability reporting and the relationship between green accounting capabilities and green human capital, green structural capital and green relational capital that occur in companies in Indonesia. Where every company is used as a target in implementing sustainability reporting compliance. This shows that company managers need the help of knowledge and skills in sustainability compliance (Salas et al., 2017; Sorensen et al., 2016). In addition, knowledge and capability regarding sustainability reporting compliance alone are not enough for managers to improve sustainability reporting compliance. Furthermore, managers must also have personal characteristics that can support their performance.

This study emphasizes the sustainability reporting compliance and the relationship between and green human capital, green structural capital and green relational capital and green accounting capability that occurs in companies in Indonesia. The selection of the subject of managers in industrial companies is because industrial companies are companies whose activities are more directed to the surrounding environment. It provides managers in companies with sustainability reporting expertise and links it to green accounting capability. So based on the background that has been described, there are several formulations of the problems raised in this study, namely as follows:

1. What is the relationship between green intellectual Capitaland sustainability reporting compliance?
2. What is the relationship between the determinants of green accounting capability and sustainability reporting compliance?
3. What is the relationship between thedeterminants of green intellectual capital and green accounting capability?
4. What is the intervention effect of green accounting capability on the relationship between determinants of green intellectual capital and sustainability reporting compliance?

Research Objectives.

Based on the research questions that have been proposed in this study, the objectives of this study are as follows:

1. To examine the relationship between green intellectual capitaland sustainability reporting compliance.
2. To examine the relationship between the determinants of green accounting capability and sustainability reporting compliance.
3. To examine the relationship between the determinants of green intellectual capital and green accounting capability.
4. To examine the intervention effect of green accounting ability on the relationship between determinants of green intellectual capital and sustainability reporting compliance.

Research Benefits

Research on the determination of green intellectual capital on sustainability reporting compliance: mediating effect to green accounting capability is expected to provide benefits, including:

1. Institution.

   This research can use as consideration and evaluation for companies, especially industrial companies regarding green intellectual capital on green accounting capability in terms of sustainability reporting that occurs in companies.
2. Academics.

   This research can use as supporting material or reference in developing further research.
3. Reader.

   This research can increase knowledge, information insight, and references in particular about the factors that affect green intellectual capital based on green accounting capability and sustainability reporting compliance that occurs in the company.

4. Researcher.

   This research can increase the researcher's knowledge and understanding of the factors that can influence fraud prevention performance in sustainability reporting.

Writing Systematic

In this study, researchers conducted a structured discussion through systematic writing. This writing systematic aims to provide a concise and clear description of the research to facilitate the reader in understanding the writing of this research. Each chapter is described in outline as follows:

CHAPTER I: INTRODUCTION

The introductory chapter contains an overview of the research, including the background of the research, the formulation of the problem, the objectives and benefits of the research, and the structure of the research.

CHAPTER II: LITERATURE REVIEW

This chapter proposes a theoretical overview of the theories that support and relate to the topic under discussion, an overview of previous research, and a framework for understanding and facilitating the conduct of this research and the development of hypotheses.

CHAPTER III: RESEARCH METHODOLOGY

This chapter discusses the methods used in this study; independent variables, mediating variables, and dependent variables included in the study, as well as appropriate measurements; types and sources of data; method of collecting data; and data analysis methods which include data analysis test tools for hypothesis testing.

CHAPTER IV: RESULTS AND DISCUSSION

This chapter consists of a brief explanation of information about the object of research, data analysis, interpretation of the results of the data that have been analyzed, and discussion of the research.

CHAPTER V: CLOSING

The closing is the last chapter of this research which contains the conclusions of the study, the limitations of the author, and the author's suggestions.