CHAPTER 1

INTRODUCTION

1.1. Background

Environmental issues are playing an increasingly important role in the current global agenda, where companies in all sectors, both financial and non-financial, are required to adopt environmentally friendly strategies to improve sustainable performance. In Indonesia itself, the enactment of POJK 51/POJK 03/2017 is an important milestone in the regulation of sustainable finance for financial service institutions. This regulation was implemented in stages starting on July 18, 2017 (Indonesian Financial Services Authority, 2017). In line with the enactment and implementation of this regulation, the exclusion of financial institutions in research related to ESG is considered irrelevant and not in line with the development of the regulation itself.

Environmental strategy is defined as a set of efforts that can reduce the impact of operations on the environment through products, procedures, and business policies, such as reducing waste and emissions, utilizing green and sustainable assets, and implementing environmental management (Latan in Tan et al., 2022). Several studies have proven that effective adaptation of environmental strategies is crucial for building sustainable competitive advantage. O'Shannassy argues that sustainability in corporate strategy can support the achievement of competitive advantage that is not merely temporary(O'Shannassy, 2008;Wang & Li, 2024).

Latan in Tan et al., 2022a defines environmental performance as the ability of production plants to reduce emissions and waste, as well as the ability to reduce the use of toxic/hazardous materials and chemicals in the supply chain. In the context of the financial sector, bank operations related to green banking, one of which is through the financing of green projects carried out by banks, have a significant and positive effect on environmental performance (Chen et al., 2022). The relationship between the two, which is expressed in a positive correlation, that organizations that have the ability to learn and adapt more quickly in implementing sustainability strategies tend to achieve better environmental performance (Delmas & Burbano, 2011; Wang & Li, 2024). This reflects the fulfillment of the legitimacy required for companies to be recognized as environmentally responsible entities, which in turn contributes to a positive reputation in the eyes of stakeholders. The selection of environmental strategy indicators is also based on the findings of each indicator's placement on the environmental performance to be measured. Prior studies indicate that GHRM, GSCM, and green production practices positively influence environmental performance (Huang et al., 2021; Laari et al., 2018; Shafaei et al., 2020).

The Sustainability Committee Board (SC Board) in a company has a tangible role sustainability committees have a real economic function and are not merely used as a symbolic management tool. It was found that the existence of a SC Board in a company has a positive effect, through the acceleration of the growth of a culture of sustainability in the corporate sector (Octavio et al., n.d. ., Biswas et al., 2018). In this study, SC acts as a mediating variable between environmental strategy and environmental performance. The existence of SC can help companies formulate effective and strategic environmental strategies, so that the results of these formulations can have a maximum impact on the company's environmental performance. According to Nakavachara & Xu, 2025, the board of directors is generally responsible for formulating and implementing strategies that address environmental issues within the corporation(Nakavachara & Xu, 2025).

The positive impact of SC implementation between the non-financial and financial sectors is different, the SC Board's financial sector tends to focus on compliance and transparency rather than on the implementation of sustainable practices that directly impact the environment (Lv et al., 2023). In addition, the non-financial sector that has a higher interaction with the environment makes the SC board more involved in the implementation of sustainable practices, which results in tangible impacts such as energy efficiency and regulatory compliance (Liu & Liu, 2020). The non-financial sector requires more active environmental risk management because their operations have a direct impact on the environment, so the decisions taken by the SC board can directly influence the company's environmental performance results, while the role of the SC board in the financial sector contributes to strengthening the company's reputation, but has less impact on real operational practices.

The existence of the Financial Services Authority Regulation (POJK) Number 51/POJK.03/2017 shows that the adoption of SC Board has become an important element in supporting corporate sustainability efforts in Indonesia. This regulation, issued by the Financial Services Authority (OJK) in 2017 and phased into effect since July 18, 2017, requires financial services institutions to integrate sustainability aspects including environmental, social, and governance (ESG) into their operations. This proves that the role of regulators in encouraging sustainability reporting for financial institutions is important. Chen, et al. (2023) also states that government policies play a crucial role in encouraging banks to increase their investment in green initiatives (Chen et al., 2023). The Sustainability Committee of the Board of Directors serves as an internal oversight mechanism that ensures sustainability strategies are implemented effectively, such as through ESG policy development, environmental risk monitoring, and periodic reporting.

Along with the regulation, the exclusion of the financial sector in the study becomes less relevant. Various studies have also noted that banks' involvement in sustainability practices, including the implementation of ESG policies, can drive better financial stability and the reduction of systemic risks (Zheng et al., 2021). By including the financial sector in the study, the study is more innovative and reliable, considering the increasingly stringent regulations governing sustainability reporting for the financial sector itself. Studies show that good ESG policies can contribute to systematic risk reduction for banks (Horobet et al., 2024), indicating a complex interaction between ESG performance and financial performance.

The selection of the Basic Materials sector as the focus in this case aims to improve comparability and testing between financial and non-financial institutions.

Furthermore, the basic materials sector as a whole is rarely the focus of research, compared to the manufacturing sector, even though it is closely related to the environment. Because these sectors have relatively high environmental exposure., environmental issues are also observed in the activity of high risk environmental companies. This expansion of the comparison is also reinforced by testing in the energy and industrial sectors, to strengthen the external validity of the research, which means that the findings are more applicable in a variety of different industry contexts.

Previous research conducted a comparison between the financial and non-financial sectors in 21 European countries, observations were made from 2010-2020 (Soana, 2024). Zheng et al., 2021 used ASEAN data, but was not specific to Indonesia, so it is important to conduct an analysis of basic materials, energy (M.Nagiev Institute of Catalysis and Inorganic Chemistry, Ministry of Science and Education of the Republic of Azerbaijan et al., 2023), while finance focuses more on financial stability through ESG (Zheng et al., 2021). A significant gap lies in the lack of comparative research between the financial sector and non financial in Indonesia. While Biswas et al., (2018) found the positive role of SC Board, this study did not compare how these committees mediate environmental strategies in both sectors, leaving the question of whether financial firms are more efficient in green financing than non financial in operational strategy.

Despite extensive studies on environmental strategies and environmental performance, empirical evidence examining the moderating role of SC Board remains limited, particularly in Indonesia. Moreover, few studies compare whether the effectiveness of environmental strategies represented by three components in the form of Environmental Human Resource Management, Environmental Supply Chain Management and Environmental Production Processes differs between financial and non-financial sectors after the implementation of POJK 51/2017. Therefore, this study addresses this gap by examine the relationship between three environmental strategies and corporate environmental performance, mediated by the existence of SC Board in a company. The sample in this study consists of companies in the financial and non-financial sectors, focusing on three sectors, namely Basic Materials, Industrial and Energy Sector listed on the Indonesia Stock Exchange from 2018 to 2024.

1.2.Problem Statements

Through the previous background explanation, the formulation of the error in this study is as follows:

1. Does GHRM, GSCM, EPR influence the company's environmental performance?
2. Do the effects of GHRM, GSCM, EPR on environmental performance differ between the financial sector and basic materials?
3. Does the presence of Board Sustainability Committees moderate the relationship between the company's environmental strategy and environmental performance?
4. What is the effect of the presence of Board Sustainability Committees on the relationship between environmental strategy and environmental performance different between the financial sector and the basic materials sector?

1.3. Research Objectives

The objectives of the research can be formulated as follows:

1. Examining the influence of GHRM, GSCM, EPR on the company's environmental performance
2. To find out if there is a difference in the state of results between the financial sector and the basic materials sector.
3. Analyze whether there is an influence of the presence of Board Sustainability Committees in a company on environmental performance
4. Analyze how the impact of the presence of Board Sustainability Committees on the influence of environmental strategy and

environmental performance between the financial sector and the basic materials sector.

1.4.Research Benefits

This study is expected to provide the following contributions:

1.1.1. Theoretical Benefits

The research will contribute scientifically in the field of Sustainability Accounting by analyzing the influence of Environmental Performance represented by 3 aspects, namely Green Human Resource Management, Green Supply Chain Management and Environmental Production Process on the company's environmental performance by using relevant datasets to provide in-depth empirical analysis as a reference for further research on the same topic and contribute in increasing understanding of how environmentally-based strategies can impact a company's environmental performance

1.1.2. Practical Benefits

1. For researchers, this research is a means of enriching knowledge, understanding, insight and media for the application of knowledge obtained during lectures, especially understanding the relationship between environmental strategy and the influence of the existence of the Board Sustainability Committee.
2. It is a practical consideration for the company's management and board members to be able to optimize the role of the sustainability committee in improving environmental performance and the formation and implementation of CSR strategies to support business sustainability and the achievement of sustainable development goals.
3. Provide insights for regulators and policymakers to design rules and policies that can support the establishment and function of

sustainability committees in various industry sectors, taking into account the characteristics of different industry sectors.

4. Assist investors and other stakeholders in assessing the extent to which companies in the Finance and Commodities sector are implementing good sustainability practices through the supervision of sustainability committees, so that they can be considered in investment decision-making.