CHAPTER I
INTRODUCTION

1.1 Background of The Problem

Social and environmental issues become an interesting issue until now. This issue has been widely discussed globally and become the topic of concern for the business world. Through the implementation of eco-efficiency in management practices or green accounting in accounting practices, current industry practices that are compassionate and ecologically friendly are realised. The seriousness of enhancing environmental performance is demonstrated by green accounting as a channel of communication between businesses and the general public. Applying green accounting to corporate accounting procedures tries to address the shortcomings of conservative accounting. The use of green accounting is also anticipated to meet the demands of corporate organisations in recognising and measuring values, recording, summarising, reporting, and disseminating financial, social, and environmental accounting information in an integrated manner.

The concept of green accounting for companies is the ability to minimize various environmental-related problems faced by the company. Environmental accounting is currently being used by many companies in the mining industry and the consumer products industry. Companies are expected to implement environmental accounting to improve the effectiveness of the use of costs associated with environmental management by conducting assessments from the stand point of environmental costs and the benefits or effects generated (economic benefits) related to environmental management. The cost and impact of environmental protection efforts can be evaluated by companies that employ environmental accounting (Dhar et al., 2022)

In Indonesia, the government has encouraged industries to implement green industry practices through the application of green accounting. Government initiatives include recognising businesses that use green business practises. Green accounting is still not being used to its full potential in underdeveloped nations, like Indonesia (Wahyuni et al., 2019). Only a few companies continued to use green accounting in their environmental performance reports. This was brought on by restrictions and a nation's lack of legal penalties.

The government's continuing environmental management programmes, such the Company Performance Rating Assessment Program (PROPER), can benefit from the publication of environmental information. PROPER is based on the company's performance in adopting different environmental management actions that have not yet evolved into requirements beyond compliance, as well as the company's success in meeting various standards outlined in applicable laws and regulations. Therefore, by revealing environmental responsibility, the government can evaluate the company's adherence to environmental standards and laws.

The world economy that has improved after the global crisis has had a positive impact on every company in Indonesia, resulting in an unavoidable tight competition. This competitive industry competition requires them to improve their performance in order to maintain viability and achieve the company's goal of making a profit (Murniati & Sovita, 2021). Profitability is a natural thing to see the sustainability of the company (Kholmi & Nafiza, 2022).

The important role of profitability is as one of the important information for investors (Hasibuan et al., 2023). Investors can analyze the development of company profits as every company will expect a large profitability every year. Ilyas & Hertati (2022) said that “the higher the company's profit, the more it will give a positive signal to investors that they will also benefit from their investment”. The number of industrial companies in Indonesia today proves that Indonesia is rich in natural resources, especially for the mining industry sector. Abundant mining natural resources make companies take advantage of these natural resources to be used as jobs and sources of income (Ningtyas & Triyanto, 2019).

However, the existence of the industry also has an unfavorable impact on the surrounding environment where companies carry out environmental exploitation actions which, if not controlled, will have a severe impact on environmental pollution (Sari et al., 2022). As such, companies need to make environmental conservation policies to improve long- term financial performance. Companies that are environmentally responsible will be appreciated by stakeholders and enhance the company's image (Ningsih et al., 2021). But in fact, not all companies are willing to spend a certain amount of money on environmental costs, because these costs will automatically reduce the amount of profit earned. Therefore, environmental accounting is present as a solution to encourage accountability for environmental sustainability (Hertati, Asmawati, et al., 2022).

1.1.1 Current Situation of The Research

Some of the studies show that the concept of environmental performance is an abstraction of externalities. Externalities are described as the effects felt by someone caused by the actions of others (Mattmann, Logar, & Brouwer, 2016). Externalities are the consequences experienced by the public or the environment when they relate to a business. It is brought on by business operations. By implementing green accounting, the perceived impact is reduced. Companies must purchase securities from externalities resulting from their business operations in order to cover the cost of externalities. Eventually, the community, the environment, and the business itself will pay for this externality's expenses.

The concept of environmental management is helpful for companies to help develop competitive advantages and strengthen relationships with external parties which will ultimately impact the company profitability (Mardikanto, 2014). This can affect the application of green accounting to increase and decrease company profitability (Wangi and Lestari, 2020). Companies that want a high level of profitability can see from their Return On Assets and Return on Equity, while people in the company's environment will see the application of green accounting.

1.2 Problem Statement

The presence of the industry has a negative impact on the adjacent environment, where companies engage in environmental exploitation that, if left unchecked, will have severe consequences for environmental pollution. In order to enhance their long-term financial performance, businesses must en1act environmental conservation policies. In Indonesia, companies' awareness of the application of green accounting is still low because, when viewed as a whole, the implementation is like a coin with two sides: on the one hand, its application will bring benefits to the company, but on the other hand, it may lead to an increase in costs due to environmental costs. In fact, a closer examination reveals that the long-term implementation of green accounting will be extremely beneficial for all parties, including businesses, consumers, investors, and the community (Grove et al., 2019). This research intends to provide a summary of how the implementation of green accounting can impact the profitability of mining companies.

(Kholmi & Nafiza, 2022) Profitability is one of the most crucial pieces of information for investors. Investors are able to analyse the evolution of a company's profits. Company will anticipate a substantial profit every year. The greater the company's profit, the more it will signal to investors that their investments will also be profitable. Number of industrial companies in Indonesia demonstrates the country's abundance of natural resources, particularly in the mining industry.

Figure 1.1 Sustainability in Mining

Source : Laurence, 2011.

Safety must be a top priority for any mining operation. Safe mines are characterised by a robust health and safety policy, a commitment to risk management, reporting systems for near-misses and incidents, and an emphasis on training and education. A mine cannot be viable if it is not profitable. The ultimate objective of mine managers is to generate profit in a responsible manner for as long as possible by minimising expenses and increasing revenue. This will maximise benefits for all stakeholders, including mine-dependent shareholders, employees, communities, and businesses. A mine must be effective in its resource management and extraction. Geologists, mining engineers, and metallurgists collaborate to optimise resource extraction. On a mine site, efficiency also incorporates the management aspect, as poor management decisions frequently result in production issues. Internal recycling of materials, such as the use of used oil for heating and discharged diesel for employee fire extinguisher training, may be a manifestation of efficiency. The importance of waste management in a mine is growing; this includes monthly inventories of all waste streams, material recycling, and employee training for onsite refuse disposal.

Adopting industry-leading environmental practises on mine sites is essential for the administration of a sustainable mine. Long-term liabilities may result if environmental values are not protected during the planning and operation phases. A mine requires a 'social licence to operate.' In the absence of community involvement and support for a mining operation, opposition and conflict may ensue. This can be enhanced through a number of initiatives, including preferential hiring of locals and the training and provision of skills in businesses or enterprises that will continue to exist after the mine closes.

1.3 Scope of Problem

This research’s population consists of all mining sector companies listed on the Indonesia Stock Exchange from 2019 to 2022, a total of 41 companies in each year. Purposive sampling methods are used to determine samples in this research. Thus, in order to determine the sample in this research, the researchers devised criteria for selecting samples with data that meet the needs of the research. The limitations in this research include the limitation of green accounting variables which are limited by PROPER, Profitability variables are limited by Return On Equity (ROA) which on Annual Report of the company.

1.4 Research Objectives and Benefits

The results of this research are expected to assist mining companies in optimizing the implementation of green accounting. Implementing green accounting can also \create a green industry. It is eco-friendly and has no negative impact on the environment. This also pertains to the organization's sustainable development. It will be simpler to increase profitability if the company's operations run smoothly. However, despite their high profitability, a number of businesses do not implement green accounting. Green accounting is known to maintain a company's environmental sustainability, thereby increasing its profitability. Therefore, researchers are motivated to conduct further research. So this research aims to analyze the effect of green accounting on profitability.

The research conducted within this paper aims to address the following research questions:

RQ1 : What is the effect of Green Accounting on Return on Assets?

RQ2 : What is the effect of Green Accounting on Return on Equity?

The research conducted within this paper aims to address the following research objectives:

RO1 : To examine the effect of Green Accounting on Return on Assets of the company

RO2 : To examine the effect of Green Accounting on Return on Equity of the company