InJEBA International Journal of Economics, Business and Accounting
DOI: 10.5281/zenodo.13737283
Vol. 2, No. 3 (Sept, 2024)
Pp. 359-367

The Effect of Green Accounting Quality on Sustainability Report with Company Size as Moderating Variable

Zulmia Oktaviani
Master of Accounting Department, University of Lampung
*Email : zulmiaoktaviani@gmail.com

Sudrajat
Master of Accounting Department, University of Lampung
Email : drajat239@gmail.com

Mega Metalia
Master of Accounting Department, University of Lampung
Email : ia_meta_m2m@yahoo.com

ARTICLE INFO :

Keywords :

Green Accounting, Sustainability Reporting, PROPER Ratings, Corporate Environmental Responsibility, Company Size

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Article History :

Received : 2024-06-06
Revised : 2024-07-11
Accepted : 2024-08-22
Online : 2024-09-10

ABSTRACT

This research investigates the influence of green accounting quality on sustainability reporting, with company size as a moderating variable. The study focuses on companies listed on the Indonesia Stock Exchange from 2017 to 2022, evaluating their sustainability reports using Global Reporting Initiative (GRI) standards and green accounting quality through PROPER ratings. Descriptive statistics and Moderated Regression Analysis (MRA) reveal that while green accounting quality positively impacts sustainability reporting, company size does not significantly moderate this relationship. The findings highlight the importance of green accounting in enhancing sustainability disclosures, aligning with legitimacy and stakeholder theories. However, the expected moderating role of company size was not supported, suggesting that factors such as sectoral differences and variations in environmental reporting practices may influence the results. This study contributes to understanding the dynamics between green accounting and sustainability reporting in the context of corporate environmental responsibility.

INTRODUCTION

The increasing emphasis on environmental sustainability in business practices has led to the introduction of regulations that mandate companies to create sustainability reports. The Financial Services Authority (OJK) in Indonesia issued a regulation (POJK No. 51/POJK.03/2017) requiring companies to produce sustainability reports separate from their annual reports. These reports provide both financial and non-financial information, including details on social and environmental performance, which are crucial for companies aiming for long-term sustainability (Prastiwi & Puspitaningrum, 2012). The government's hope is that companies will recognize the importance of sustainability reporting as part of their operational responsibilities. Despite the regulation, certain aspects of sustainability, such as environmental accounting, carbon footprint calculation, and innovation, have not been thoroughly explored in previous research (Benameur et al., 2023). The concept of the Triple Bottom Line, introduced by Elkington in 1997, suggests that businesses should not only focus on profit but also consider their impact on people and the planet. A

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company's good environmental performance can enhance its public image and elicit positive responses from society.

However, poor management of operational activities can lead to environmental damage, which might provoke public protests and disrupt business operations. Environmental issues, including pollution, resource depletion, and product safety concerns, are increasingly becoming a major concern for society. The severe impact of corporate activities on the environment highlights the necessity for companies to manage their environmental footprint responsibly, with sustainability reports serving as a critical tool in this regard. Indonesia's environmental challenges are evident, as shown by the 2022 IQAir report, which ranked the country 26th out of 113 nations based on air quality, with PM2.5 levels reaching unhealthy levels (IQAir, 2023). Air pollution, driven by methane emissions and fossil fuel combustion, is a significant contributor to climate change. Studies confirm that 99.9% of climate change is human-induced, leading to severe environmental events like floods, heatwaves, and forest fires (IQAir, 2022). Indonesia is also one of the world's largest carbon dioxide emitters, ranking sixth globally with 729 million tons of CO2 emissions in 2022 (Global Carbon Atlas, 2022).

Climate change is exacerbating extreme weather events in Asia, including Indonesia, where daily maximum temperatures range from 34 to 36 degrees Celsius (BMKG, 2023). These environmental challenges underscore the importance of companies developing strategies to mitigate and adapt to climate change, as the consequences can significantly disrupt business operations. Instances of environmental negligence have had dire consequences for companies. In 2011, Indonesia's Ministry of Environment identified 49 out of 1,002 companies as having violated environmental regulations, resulting in severe penalties. For example, PT Ricky Kurniawan Kertapersada was fined IDR 191.8 billion for environmental restoration, which eventually led to the company's bankruptcy (Mongabay, 2024). PT Timah Tbk also faced allegations of corruption related to mining licenses, causing ecological damage estimated at IDR 271 trillion (Bhawono, 2024).

Moreover, PLN Indonesia Power, managing several coal-fired power plants, refuted claims that pollution from these plants caused 1,470 deaths annually and health damages worth IDR 14.2 trillion (BBC, 2023). Similarly, Pertamina's operations have faced environmental scrutiny, particularly after pipeline leaks that increased sustainability disclosures in subsequent years (Purwanti & Lestari, 2022). These incidents have pressured companies to be more transparent and accountable for their environmental and social impacts, thereby fostering the green accounting movement. Green accounting is a management tool designed to evaluate the effectiveness of environmental conservation efforts by summarizing and classifying conservation costs (Pramanik, Shil, & Das, 2008). It integrates environmental costs into business accounting, aiming to reduce societal costs associated with environmental impacts (Magablih, 2017).

Nevertheless, research indicates that green accounting, when assessed through environmental expenditures, does not significantly impact sustainable development within Indonesian mining firms due to inadequate environmental spending (Razak & Azizah, 2023). Despite these difficulties, green accounting remains crucial for businesses in effectively identifying and managing their environmental liabilities. Furthermore, the size of a company influences the likelihood of publishing sustainability reports, with larger organizations being more prone to release such reports. However, the effect of company size on the quality of these reports varies (Imron & Hamidah, 2022; Ruhana, Hidayah, & Buana, 2020). This study seeks to investigate whether the size of the company moderates the connection between the quality of green accounting and sustainability reporting. By building on previous research, this study aims to provide new perspectives and insights into this important aspect of corporate responsibility.

LITERATURE RESEARCH

A. Theoretical Basis

Legitimacy theory, as articulated by Lindblom (1984) and other scholars, underscores the necessity for a company's values to align with societal expectations. Dowling and Pfeffer (1975), referenced in Ghozali and Chairi (2007), introduce the concept of the legitimacy gap, which occurs when a company prioritizes profit over societal well-being, resulting in a decline in public trust (Widhiastuti, Suputra, & Budiasih, 2017). Additionally, stakeholder theory, as formulated by Gray, Kouhy, and Adams (1994) and cited in Ghozali and Chairi (2007), posits that a company's survival hinges on the support of its stakeholders, necessitating active

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and ongoing engagement. This theory argues that companies are required to generate value not only for themselves but also for their stakeholders—including investors, government entities, and society at large—who have a legitimate right to be informed about the company's environmental impact.

B. Sustainability report

In Indonesia, companies have increasingly adopted sustainability reporting, recognizing its benefits and driven by regulatory requirements. The government enacted Law No. 40 of 2007, Article 24, which mandates corporate social and environmental responsibility to enhance the quality of life for communities and their environments (Nasir, Ilham, & Utara, 2014). Additionally, the Financial Services Authority (OJK) introduced Regulation No. 51/POJK.03/2017, which further requires companies to produce sustainability reports. According to the Global Reporting Initiative (GRI), these reports are instrumental in measuring, disclosing, and holding organizations accountable for their progress toward sustainable objectives, offering vital information for stakeholders in their decision-making processes (Diono, 2017). Environmental disclosures within these reports are guided by the GRI 300 standards, which include 32 specific items.

C. Green accounting

Environmental accounting, also referred to as green accounting, incorporates ecological expenses into business or governmental financial practices, showcasing the field's advancement in tackling environmental issues. As societal awareness of environmental issues grows, accounting practices have adapted to internalize externalities, leading to the concept of Socio Economic Environmental Accounting, which aligns with the Triple Bottom Line approach by reporting not just economic performance but also environmental and social impacts (Ikhsan, 2008). Implementing green accounting enables companies to identify opportunities for reducing operational costs, lowering energy and resource expenses, and making strategic decisions regarding the continuation or discontinuation of certain processes or products. Additionally, it offers a competitive advantage by minimizing environmental impact through improved product design, packaging, and processes, while ensuring compliance with existing laws and regulations, ultimately enhancing the company's image (Saputro & Nuswantara, 2022).

D. Environmental Cost

Environmental costs encompass both financial and non-financial effects resulting from activities that influence the quality of the environment. These costs are often challenging to identify directly, as they tend to be hidden within overhead expenses and lack clear documentation (Ikhsan, 2008). Implementing green accounting involves incurring such costs as part of providing goods and services, aiming to foster a healthy and sustainable environment. Environmental costs are associated with poor environmental management systems and result from the adverse effects of production processes. These costs include expenses related to processes impacting the environment and remediation of damages caused by waste. Companies report environmental costs in their financial statements, often through community development programs, comparing the allocated funds with the net profits generated. Environmental costs can be categorized into prevention costs, which are incurred to prevent waste production, and detection costs, which ensure that the company's activities comply with environmental standards (Wulaningrum & Kusrihandayani, 2020; Hansen & Mowen, 2016).

E. Environmental Performance

Environmental performance refers to the outcomes of an organization's efforts in environmental management aimed at fostering local environmental responsibility. Since 1994, Indonesia's Ministry of Environment and Forestry has implemented the PROPER program to evaluate and ensure corporate compliance with environmental regulations, employing a system of reputation-based incentives and sanctions. This program encourages businesses to adopt cleaner production techniques, potentially leading to sustainable environmental practices and long-term corporate sustainability (Ulupui et al., 2020). According to the Ministry's regulations (PERMENLHK No. 01 Tahun 2021), companies are categorized from Gold to Black based on their environmental management practices, ranging from exceeding regulatory requirements to causing environmental damage. The evaluation encompasses adherence to laws concerning pollution control,

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waste management, and resource conservation, as well as surpassing legal requirements through life cycle assessments, environmental management systems, and community empowerment efforts.

F. Company Size

Company size typically denotes a scale that categorizes firms as large or small based on various metrics, such as aggregate assets, mean total assets, market capitalization of shares, total revenue, average sales, profit levels, and workforce size (Dang, Li, & Yang, 2018). Scholars have observed that company size can be classified in different manners, including total revenue, total assets, and total equity (Brigham & Houston, 2010). Hartono (2008) suggests measuring company size by aggregate assets or the value of a firm's assets, often utilizing the logarithm of total assets. Kurniasih and Sari (2013) characterize company size as an indicator of the firm's scale, while Riyanto (2001) proposes it represents a company's scope through aggregate assets, sales volume, average sales, and total assets.

METHOD

A. Population and Sample

The population for this research includes all entities or elements being examined, whereas the sample constitutes a portion of this population (Supranto, 2015). The purposive sampling technique was utilized, with the criteria being: firms listed on the Indonesia Stock Exchange from 2017 to 2022, those involved in PROPER from 2017 to 2022, and entities that published both sustainability and annual reports during the same timeframe. Based on these criteria, the sample calculation yielded a total of 204 samples over six years (2017-2022), after excluding non-compliant firms. The research sample spans various sectors, including Consumer Non-Cyclicals, Industrials, Energy, Basic Materials, and Healthcare.

B. Operational Definition of Research Variables

Operational definitions offer precise explanations of the variables utilized in research. In this study, the operational definition for Sustainability Report is grounded in the standards set by the Global Reporting Initiative (GRI). According to these standards, a sustainability report involves the processes of measuring, disclosing, and ensuring accountability for an organization's performance in achieving sustainability objectives, catering to both internal and external stakeholders (Diono, 2017). The assessment of the sustainability report is conducted using GRI Standard 300, which encompasses 32 specific environmental disclosure items. These items include aspects such as materials, energy, water, biodiversity, emissions, wastewater, waste, environmental compliance, and environmental assessments.

$$SRDI = \frac{Amount\ disclosed}{Number\ of\ items}$$

Green Accounting involves accounting practices that encompass the indirect costs and benefits associated with economic activities, including the environmental impacts and health consequences resulting from business decisions (Cohen & Robbins, 2011). The quality of green accounting is evaluated through PROPER ratings, which categorize performance into five levels: Gold (Excellent) with a score of 5, Green (Good) with a score of 4, Blue (Fair) with a score of 3, Red (Poor) with a score of 2, and Black (Very Poor) with a score of 1 (Kementerian Lingkungan Hidup, 2011). Additionally, Company Size is assessed based on the scale of the business, which can be measured using various metrics such as total revenue, total assets, and total equity (Hartono, 2008). In this study, Company Size is quantified by applying the natural logarithm to the total assets.

$$Company\ size = Ln\ \times asset\ total$$

C. Data Analysis Methods

The data analysis incorporates several essential techniques. Descriptive statistics are used to summarize the data through measures such as the mean, standard deviation, and range (Ghozali, 2017). To validate the panel data model, classical assumption tests are performed. Normality is assessed by analyzing the distribution of residuals (Ghozali, 2017). Multicollinearity is evaluated using tolerance values and Variance Inflation Factors

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(VIF), where a VIF value below 10 suggests no significant multicollinearity issues (Ghozali, 2017). Heteroskedasticity is identified by examining scatterplots for any patterns in the variance of residuals (Ghozali, 2017). Autocorrelation is tested using the Durbin-Watson statistic, with values less than -2 indicating positive autocorrelation and values greater than +2 indicating negative autocorrelation (Santoso, 2014). Additionally, Moderated Regression Analysis (MRA) is employed to assess the impact of company size on the relationship between green accounting quality and sustainability reporting.

D. Hypothesis Testing

Hypothesis testing involves several essential analytical methods. The F-test assesses whether all independent variables, collectively, have an effect on the dependent variable. If the calculated F-value exceeds the critical F-value, the null hypothesis (H0) is rejected in favor of the alternative hypothesis (H1). Conversely, if the F-value is less than the critical value, the null hypothesis (H0) is accepted, and the alternative hypothesis (H1) is dismissed. At a significance level of 0.05, a p-value greater than 0.05 suggests that the independent variables do not collectively affect the dependent variable. On the other hand, a p-value less than 0.05 indicates a significant combined impact.

The coefficient of determination (R^2) measures the degree to which the model explains the variance in the dependent variable. It ranges from 0 to 1, where a value close to 1 signifies that the independent variables nearly fully account for the variation in the dependent variable, while a value near 0 indicates a limited explanatory power (Kuncoro, 2007). The t-test examines the effect of each individual independent variable on the dependent variable while controlling for the influence of other variables. If the computed t-value exceeds the critical t-value, the null hypothesis (H0) is rejected, and the alternative hypothesis (H1) is accepted, reflecting a significant effect. Conversely, if the t-value is less than the critical t-value, the null hypothesis (H0) is not rejected, indicating no significant effect. At a significance level of 0.05, if the p-value is above 0.05, it suggests that the independent variable does not significantly impact the dependent variable. Conversely, if the p-value is below 0.05, it indicates a notable effect (Ghozali, 2017).

RESULTS AND DISCUSSION

1. Descriptive Statistical Test

Descriptive statistics provide an overview of the data, highlighting the minimum, maximum, mean, and standard deviation for each variable: the dependent variable (sustainability report), the independent variable (green accounting quality), and the moderating variable (company size). Table 1 shows that the sustainability report variable (SR) ranges from a minimum value of 0.03125 for KLBF in 2017, indicating one disclosed item, to a maximum value of 1.000 for TINS in 2022, reflecting complete disclosure of 32 items. The average SR is 0.4555760, suggesting that on average, companies disclose about 14-15 environmental items, with a standard deviation of 0.2260, indicating relatively consistent data dispersion. For green accounting quality (GA), the average score is 3.53, with a standard deviation of 0.705, indicating good data dispersion. The GA scores range from a minimum of 2 to a maximum of 5, with several companies achieving high ratings, signifying many firms are performing well in green accounting practices.

Table 1. Descriptive Statistical Test

Variable	Minimum	Maximum	Mean	Std. Deviation
Sustainability Report	0,0312	1,0000	0,4556	0,2260
Green Accounting Quality	2	5	3,53	0,705
Company Size	27,4650	35,8462	30,8571	1,3504

Company size (SIZE) varies from a minimum of 27.4650 for MERK in 2017 to a maximum of 35.8462 for CPIN in 2017 and 2018. The average company size across 204 samples is 30.857125, indicating generally large company sizes, with a standard deviation of 1.3504, reflecting stable data dispersion. Rhe majority of the sample companies are from the consumer non-cyclicals sector, followed by basic materials, energy, industrials, and healthcare. Most companies received a blue PROPER rating, indicating a strong commitment to environmental performance. Notably, in 2021 and 2022, one company, BWPT, received a red rating, but the

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overall trend shows many companies achieving high ratings, particularly the gold rating in 2021, signifying a significant environmental awareness and consistent engagement with PROPER from 2017 to 2022.

2. Moderated Regression Analysis (MRA)

Moderated Regression Analysis (MRA) utilizes a methodological framework that preserves the integrity of the sample while offering a means to control for the influence of moderating variables (Ghozali, 2017). In MRA, the regression equation incorporates interaction terms between independent variables. These interaction terms allow for the examination of how the relationship between the independent variables and the dependent variable is influenced by the moderating variables. By including these terms, MRA enables a more nuanced understanding of how moderating factors can alter the strength or direction of the relationships under study. According to the regression equation SR = 0.082 + 0.070GA + 0.004SIZE – 0.030GA*SIZE + ε, the interpretation is as follows: the constant of 0.082 indicates that if the quality of green accounting, company size, and their interaction are all zero, the sustainability report disclosure would increase by 0.082. The coefficient of green accounting quality (0.070) signifies that each unit increase or decrease in green accounting quality results in a 0.070 increase in sustainability report disclosure, assuming other variables are zero. The company size coefficient (0.004) means each unit change in company size results in a 0.004 increase in sustainability report disclosure, with other variables held constant. Finally, the interaction coefficient (-0.030) implies that each unit change in the interaction between green accounting quality and company size leads to a -0.030 decrease in the relationship between green accounting quality and sustainability report disclosure, assuming other variables are zero.

Table 2. Moderated Regression Analysis

Notes	Unstandardized B	Coefficients Std. Error fficients	Standardized Coefficients Beta	t	Sig.
Constant	0,082	0,367		0,225	0,822
Green Accounting Quality	0,070	0,022	0,217	3,166	0,002
Company Size	0,004	0,012	0,025	0,354	0,724
Interaction of Green Accounting with Company Size	-0,030	0,018	-0,117	-1,653	0,100

3. Model Feasibility Test

The results from the model feasibility test (F-test) indicate a significance p-value of 0.003, which is less than the 0.05 threshold. This suggests that the regression model is a good fit and is appropriate for proceeding to the next stage of testing.

Table 3. Model Feasibility Test

Notes	Sum of Squares	df	Mean Square	F	Sig.
Regression	0,687	3	0,229	4,732	0,003
Residual	9,683	200	0,048		
Total	10,371	203			

4. Coefficient of Determination

The coefficient of determination (R^2) test evaluates how well the model explains the variation in the dependent variable. The results, reveal that the adjusted R^2 value is 0.052. This indicates that the independent variables—quality of green accounting, company size, and their interaction—explain only 5.2% of the variation in the dependent variable, leaving 94.8% of the variation attributed to other factors.

5. Partial Test

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The partial test (t-test) results, indicate that the significance value for the quality of green accounting is 0.002, which is less than 0.05, supporting the acceptance of the first hypothesis (H1). This means that the quality of green accounting has a significant positive effect on the sustainability report. Conversely, the significance value for the interaction between green accounting and company size is 0.100, exceeding 0.05, leading to the rejection of the second hypothesis (H2). Therefore, company size does not significantly moderate or influence the relationship between green accounting and the sustainability report.

6. The Effect of Green Accounting Quality on Sustainability Report

The analysis conducted with SPSS demonstrated that the coefficient for the quality of green accounting is 0.082, accompanied by a significance level of 0.002, which is below the threshold of 0.05. This confirms the acceptance of the initial hypothesis, indicating a substantial positive effect of green accounting quality on the sustainability report. The data reveals that with an average green accounting score of 3.53, a significant number of companies are classified within the 'good' category. In addition, the average score for the sustainability reports is 0.4555, suggesting that the majority of companies report between 14 and 15 items. This analysis highlights that improved green accounting practices are strongly associated with more comprehensive sustainability disclosures. High PROPER ratings correlate with more comprehensive environmental disclosures, aligning with studies by Mustofa et al. (2020), Nur & Panggabean (2023), and Widyawati & Hardiningsih P. (2022). Companies demonstrating strong environmental performance through their sustainability reports exhibit greater social responsibility, enhancing their overall corporate value and stakeholder engagement.

The results underscore that better green accounting quality leads to more extensive sustainability reporting, which in turn improves public perception and stakeholder engagement. According to legitimacy theory, firms that show environmental concern gain societal recognition, and this is supported by the findings that higher PROPER ratings drive more detailed environmental disclosures (Lu & Taylor, 2018). Such disclosures foster a positive corporate image and attract investors, as supported by Ifada & Saleh (2022). Additionally, stakeholder theory suggests that detailed environmental reporting reduces uncertainty and positively influences stakeholder perceptions (Nur & Panggabean, 2023).

7. The Effect of Green Accounting Quality on Sustainability Report with Company Size as Moderating Variable

According to the analysis performed with SPSS, the interaction term between green accounting quality and company size has a coefficient of -0.030, with a significance level of 0.100, which exceeds the 0.05 significance threshold. This result implies that the size of the company does not significantly influence or enhance the relationship between the quality of green accounting and the extent of sustainability reporting. Consequently, the second hypothesis is rejected, indicating that company size does not play a notable moderating role in affecting how green accounting quality impacts sustainability reporting. This finding suggests that variations in company size do not substantially alter the effect of green accounting practices on the depth of sustainability disclosures.The findings contradict the theory posited by Bae, Choi, Lee, and Psaros (2013), which suggests that larger companies, with their greater market access and financial resources, should have a stronger capacity to influence environmental reporting. The expectation was that larger firms would have a more pronounced effect in leveraging green accounting practices to enhance their sustainability reports.

In contrast to these results, Nur and Panggabean (2023) contend that larger corporations have a positive and significant moderating influence on the connection between corporate environmental performance and environmental disclosure. They argue that larger enterprises, due to their extensive financial and technical resources, are more capable of providing detailed environmental information and implementing green accounting practices. Their perspective suggests that the substantial resources available to larger firms enable them to more effectively engage in and report on environmental sustainability efforts, thereby strengthening the relationship between environmental performance and the extent of environmental disclosure. The discrepancy in this study's results could be attributed to the diverse range of company sizes and sectors within the sample, which were not accounted for. As Angela and Handoyo (2021) note, even large firms may prioritize operational costs over environmental protection expenditures, affecting their

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environmental reporting practices. This variation in reporting standards and expenditures across different firms could explain why company size did not moderate the relationship as expected in this research.

CONCLUSION

The objective of the study was to offer empirical evidence regarding the effect of green accounting quality on sustainability reports and to assess whether company size influences this relationship. The sample consisted of 34 firms listed on the Indonesia Stock Exchange (IDX) and involved in the PROPER program between 2017 and 2022, resulting in a total of 204 observations. The findings revealed that the quality of green accounting has a notable positive impact on sustainability reporting. This indicates that companies with higher PROPER ratings are more likely to deliver extensive environmental disclosures. This conclusion highlights that firms demonstrating superior green accounting practices tend to offer more detailed and comprehensive reports on their environmental performance. This enhanced disclosure helps improve public and stakeholder perceptions. However, company size did not moderate or strengthen the effect of green accounting on sustainability reports. Larger companies may have better market access but still do not significantly influence the relationship due to varying sustainability reporting practices and expenditures. The study's limitations include the subjective nature of content analysis, lack of sector-specific comparisons, and absence of specific regulations on sustainability reporting, which may introduce bias. Future research could use alternative measurement methods, explore sector-based differences, and advocate for more specific environmental accounting regulations by relevant authorities.

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Corresponding Author : Zulmia Oktaviani