

Conservation and Environmental Performance of Islamic Enterprises in Indonesia

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ABSTRACT

Conservation is very important for Islamic enterprises in their effort to protect the environment. This research examines the effect of conservation on the environmental performance of Indonesian Islamic enterprises from the perspective of legitimacy theory. The relationship between conservation and environmental performance examined and tested using Partial Least Square-Structural Equation Model (PLS-SEM). The results of the study showed positive influence of conservation on environmental performance at Islamic enterprises to guarantee the quality of human life. It was recommended Institute of Indonesia Chartered Accountants (IAI) publish the Environmental Accounting Standards.

Keywords: Conservation, environmental performance, Islamic enterprises, PLS-SEM

INTRODUCTION

Environmental degradation is the outcome of poor management and exploitation of natural resources without conservation. It also decreases both the quality of life and

public welfare. In Indonesia, environmental damage leads to air, water, land, river, and sea pollution as well as the destruction of forests. In line with the teachings of Islam, humans are responsible to Allah and as *Khalifah* on the earth, they are entrusted to protect the environment (Ismail, Ramli, & Darus, 2014). Ahmed (2012) recommended that environmental management accounting (EMA) be implemented at Islamic companies to ensure conservation of nature to guarantee the prosperity for human and all his creatures.

There are some reasons for implementing the EMA at Islamic enterprises. First, to eliminate environmental damages as a result of the company's activities (Arfan, 2008). Second, to provide relevant information for environmental management and accountability for environmental performance (Swamy, 2010). Third, to improve the management's adherence to Islamic principles in managing the environment (Johnstone, 2012). Implementing the Islamic principles has positive influence on the performance of Islamic enterprises (Asrori, 2014). This is the main motivation for this research. The Law of Republic Indonesia No. 40 in 2007 on Limited Company at chapter 74, state that: "the companies which run the business activities at the field of or related to the natural resources are obliged to perform the social and environment responsibility". The issuance of laws did not receive any attention from Indonesian Accountants Association (Ikatan Akuntan Indonesia/IAI). The SFAS No. 1, paragraph 14 states that: "the report on environmental management for industrial companies in which the environment played the important role it was specified as the additional report only" (Indonesian Accountants Association, 2009).

Thus, the research question is: Does conservation have a positive influence on environmental performance of Islamic enterprises in Indonesia to guarantee quality of human life and welfare society?

LITERATURE REVIEW

Conservation

Conservation receives critical attention in Islamic civilisation. In line with the Islamic teaching, conservation activities are very important for the Islamic enterprise to preserve the environment (Darus, Yusoff, & Mohd Azhari, 2013; Ismail et al., 2014). Conservation pertains to micro environmental conservation, i.e. preventing, controlling and overcoming the environmental degradation; second the macro environmental conservation, i.e. to prevent, to control and to resolve the global environmental damages; third the environmental conservation aims to preserve and maintain the availability of natural resources; fourth, the environmental conservation maintains and preserves nature to ensure social welfare. Yusoff, Darus and Rahman (2015) show that companies have undertaken initiatives to educate their employees and society by providing environmental and education programmes in order to cultivate good habits to preserve the environment.

Environmental Performance

Ferreira, Moulang and Hendro (2010) confirmed that EMA was required to present relevant information for the company management to improve its environmental performance to ensure the business sustainability. Environmental performance reflects the company's ability

to create a good environment for physical, economic and social benefits to guarantee the quality of human life and welfare society (Ferreira, Moulang, & Hendro, 2010; Setthasakko, 2010). The physical benefits relate to decrease in air, water, soil and waste pollution, and the efficiency of energy use. It also improves the economic independence and the public incomes and to improve the development and sustainability of local economic institutions. The social benefit relates to improvement of community solidarity, the prevention of social conflict, and the institutionalisation of social relationships between companies and communities.

The Hypothesis Development

Deegan (2002) in legitimacy theory states that if the company's values were congruent with the social values, then its social contract is legitimate and its survival would be assured. In line with legitimacy theory, implementation of EMA was necessary for the company's management to be more proactive in managing environmental issues (Cassells, Lewis, & Findlater, 2011), and to improve environmental performance (Ann, Zailani, & Wahid, 2006). A number of researches provide empirical support of om the implementation of environmental management in Islamic companies which have a significant effect on the fulfillment of corporate social responsibility to meet the conservation needs and improve environmental performance to achieve sustainable development goals (Ahmed, 2012; Ismail et al., 2014), to create a good

company's environmental management. The variable was measured by three indicators in obtaining the physical, economic and

environment in obtain the physical, economic and social benefits to guarantee the quality of human life and welfare society (Ferreira et al., 2010; Setthasakko, 2010). Referring to the legitimacy theory and research results described above, the hypothesis of the research was: "conservation has a positive influence on environmental performance at Islamic enterprises in obtaining of the physical, economic and social benefits to guarantee the quality of human life and welfare society."

METHODS

The sample of the study consist of 14 Indonesian public companies covering, namely Islamic enterprises, which are listed in the Jakarta Islamic Index (JII). These companies were selected based on their experience in the field and due to abundance of natural resources which were sensitive to the environment. The unit of analysis of this study includes the annual reports of Islamic companies selected as samples, over the last five years from 2011 to 2015.

The variables of the study consist of conservation and environmental performance. Conservation variable presents the Islamic enterprise efforts to maintain and preserve the environment. The variable was measured by four indicators conservation disclosure, were the micro conservation, the macro conservation, the natural resources conservation, and the public welfare conservation (Darus et al., 2013; Ismail et al., 2014; Yusoff et al., 2015). Environmental performance variable was the result or benefits derived from the

social benefits to guarantee the quality of human life and welfare society (Ferreira et al., 2010; Setthasakko, 2010).

Data was gleaned from documentation. Furthermore, to test the hypotheses; the data was analysed by

¹ Partial Least Square- Structural Equation Model (PLS-SEM), (see the conceptual model below).

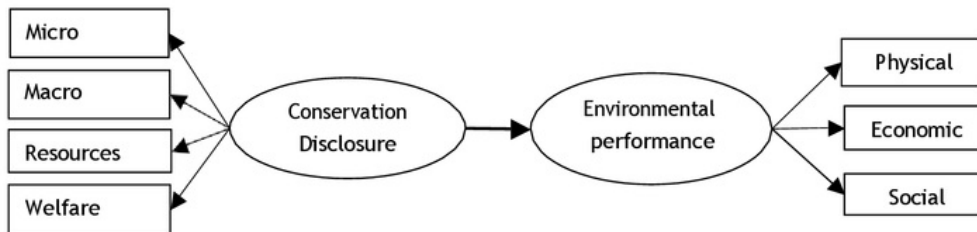


Figure 1. The conceptual model of SEM-PLS influence of conservation disclosure toward the environmental performance of Islamic enterprises

The hypothesis was tested by the ² significance level of 5% (t count > t table 1.691). If the ²th coefficient was smaller than the significance level of 5% (that t count > t table 1.691) the hypothesis was accepted; and vice versa.

RESULTS

⁵ Descriptive Analysis

The findings of descriptive analysis of conservation and environmental performance at Islamic enterprises in Indonesia described in Table 1 and Table 2.

Table 1
Description of conservation at Islamic enterprises in Indonesia

Indicator	Description	Criteria
Micro conservation	Prevent pollutions of noise, vibration, air, water, soil, odour, waste production, and other environmental pollutions around the company.	Low
Macro conservation	Prevent the global warming, depletion of the ozone layer, pollutions of river and sea, destruction of forests, and other macro environmental damages.	Low
Natural resources conservation	Maintain and ensure the availability and sustainability of water, energy, materials; and other natural resources that are used as raw material production; and efforts to use raw materials from recycled production.	Medium
Welfare conservation	CSR program to improve the quality of human life and welfare society, education and environmental training, the development of environmentally friendly products, environmental sustainability research, participation in reforestation and preservation.	Medium

Table 2
Description of environmental performance of Islamic enterprises in Indonesia

Indicator	Description	Criteria
Physical benefit	The efficient of energy and water uses; reduction of emissions, air and water pollutions, soil contamination and production waste.	Medium
Economic benefit	The increase in community income, community empowerment, institutional establishment of new local economy, and development and sustainability of local economic institutions	Medium
Social benefit	Improvement of community solidarity, social relationships and sustainability between companies and communities, and reduction of the social conflicts between companies and communities.	Medium

The Hypothesis Testing

The empirical model of the hypothesis testing which can be seen in the following figure:

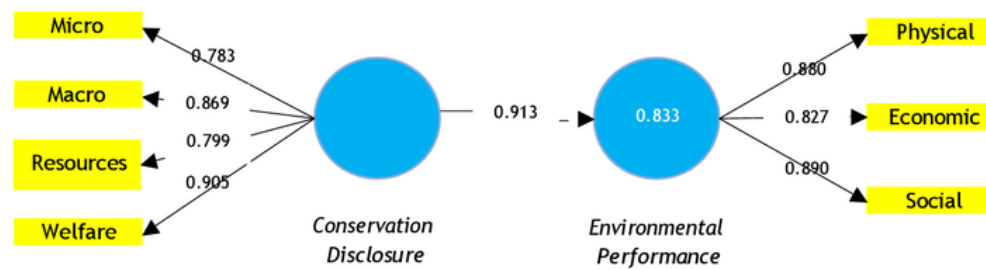


Figure 2. The influence of conservation disclosure on the environmental performance at Islamic enterprises in Indonesia

Based on the empirical model above, path coefficient was used to support the hypothesis (Table 3).

Table 3
The path coefficient of the original sample on the influence of conservation disclosure toward the environmental performance at Islamic enterprises in Indonesia

Path Coefficient	Original Sample	Sample Mean	Standard Deviation	T Statistics (O/STDEV)	P-Values
Conservation Disclosure -> Environmental performance	0.913	0.916	0.011	82.893	0000

Based on the table above the hypothesis “conservation has the positive influence on environmental performance at Islamic enterprises in obtaining of physical, economic and social benefits to guarantee the quality of human life and welfare society” was accepted.

DISCUSSION

Conservation disclosure at Islamic enterprises in Indonesia which was observed by four indicators, namely micro environmental conservation, macro environmental conservation, natural resources conservation and public welfare conservation were at the low and medium categories. Environmental performance of Islamic enterprises in Indonesia which was observed by three indicators in obtaining physical, economic and social benefits were at the medium categories. The results of this study provided empirical evidence that conservation has the positive influence on environmental performance at Islamic enterprises in obtaining of physical, economic and social benefits.

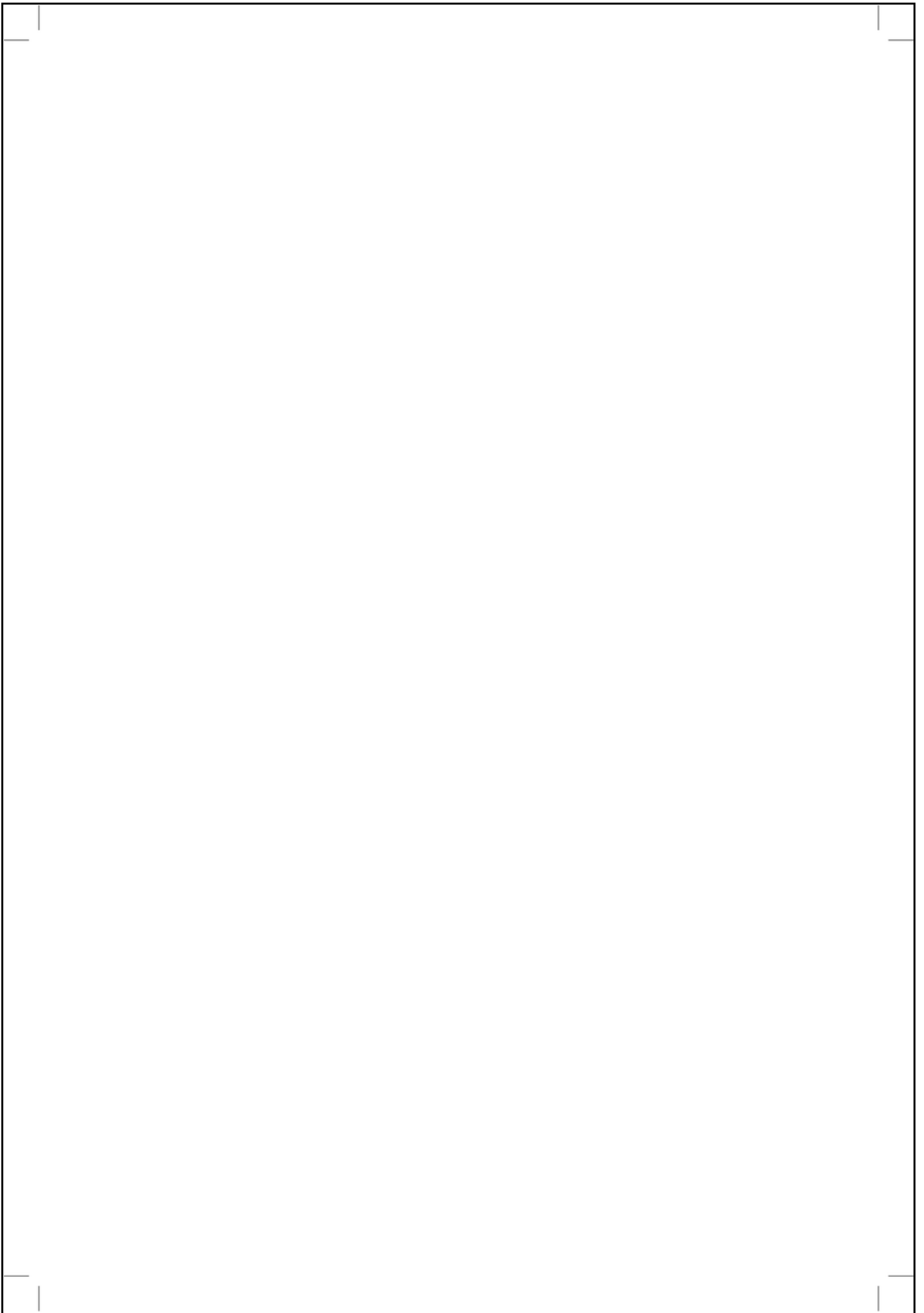
This study provides empirical support for the importance of EMA implemented by the Islamic enterprises as recommended by Ahmad (2000) which states that the environmental management accounting should be implemented at Islamic enterprises as the decision-making media and the accountability for performing conservation of nature to guarantee the quality of human life and welfare society. Referring recommendations of Cassells, Lewis and Findlater (2011); Ferreira et al. (2010);

Setthasakko (2010) the implementation of EMA is required to improve the management efforts of Indonesian Islamic enterprises to be more proactive in managing conservation to increases environmental performance. Mainly in managing micro conservation to prevent pollutions of noise, vibration, air, water, soil, odour, waste production, and other environmental pollutions around the company; and also in managing macro conservation to prevent the global warming, depletion of the ozone layer, pollutions of river and sea, destruction of forest, and other macro environmental damages, with is still in the low category.

Implementation of EMA is required of Indonesian Islamic enterprises in addition to improving conservation activities, and it is also intended to increase its environmental performance in achieving the benefits of the physical, economic and social to guarantee the quality of human life and welfare society which is still in the medium category. Consistent with the results of this study so it was recommended to Institute of Indonesia Chartered Accountants (IAI) to publish the Environmental Accounting Standards as the guidelines for the company management to fulfil accountability on managing of environmental which was appropriate to the law and regulation.

CONCLUSION

Conservation at Islamic enterprises in Indonesia which was observed by disclosure of micro and macro conservation. Resources conservation and public welfare show the medium categories. Environmental



performance of Islamic enterprises in Indonesia which was observed by three indicators in obtaining physical, economic and social benefits was in the medium categories. This study gives empirical support that conservation has positive influence on environmental performance at Islamic enterprises in obtaining physical, economic and social benefits to guarantee the quality of human life and welfare society. Consistent with the results of this study was recommended for Institute of Indonesia Chartered Accountants (IAI) to publish the Environmental Accounting Standards.

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