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Relationship Between Capability and Sustainability Performance: Evidence from Indonesia

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ABSTRACT
A number of studies have proven that capabilities or strategies can influence sustainability performance. This study aims to examine the effect of capability dimensions on sustainability performance within the scope of companies in Indonesia. The population in this study were all accounting and financial managers, control managers, environmental managers, human resources, marketing, operations, and corporate social responsibility (CSR) of 116 manufacturing companies listed on the Indonesia Stock Exchange (IDX). The sample taken was 185 managers from 45 companies. Data collection methods with questionnaires developed from research (Henri, 2006) and (Staniškis & Arbaciauskas, 2009). The data analysis method uses structural equation modeling (SEM) with Smart PLS. The results of this study indicate that sustainability performance is influenced by market orientation and entrepreneurship which are capability dimensions.

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INTRODUCTION

Global climate change is triggering more attention from producers and consumers over sustainability performance [1]. On that basis, company leaders need to integrate sustainability performance into company activities, and make it a corporate business strategy. Sustainability performance has three dimensions namely environment, social, and economy [2]. As according to [3] the concept of sustainability refers to responsible economic growth while protecting natural resources for future generations.

Not only big companies, sustainability performance even needs to be considered by small and medium enterprises (SMEs). According to [4], SMEs also need to take responsibility for resource exploitation. This exploitation results in air, water and garbage pollution. On that basis, sustainability performance is very important to be carried out by all elements and business units both large companies and SMEs.

Sustainability performance is an integration of economic, environmental, social, and communication dimensions into the supply chain. According to [5], measuring sustainability performance can be seen from four dimensions namely economic, environmental, social, and communication. In addition, measuring sustainability performance can also use ESG (environmental, social, and governance) indicators [6]. Sustainability performance is important to be disclosed separately in a company sustainability report in line with the launch of the Global Reporting Initiative (GRI) guidelines in 2002. The reason, financial statements alone cannot reflect information about aspects of the use of resources owned and used by the company. Among them are human resources, environmental responsibility, and social impacts [5].

Sustainability performance in the Indonesian context is still not an aspect of serious attention. Evidently, based on data from the Financial Services Authority (FSA) in 2016 there were only 9% of the total listed companies on the stock exchange that revealed sustainability reports. Yet based on research [7] sustainability reports exist to indicate true sustainability performance. There are not many companies in Indonesia that disclose sustainability reports, one of which is caused by not many companies that understand the urgency of sustainability performance and efforts to improve it. On that basis, to improve sustainability performance, strong empirical evidence is needed related to what factors or dimensions influence it.

The fact that companies have not been serious in improving their sustainability performance is ironic considering the many environmental and agrarian conflicts that have occurred in Indonesia. Based on Wahana Lingkungan Hidup (Walhi) data, until 2017 there are 302 environmental and agrarian conflicts that occur in Indonesia. In addition, there is no doubt that today sustainability is very relevant and is a characteristic desired by every industry throughout the world [8]. In fact, in research [9] it is explained that sustainability is a central issue in companies that are closely related and integrated into their core business.

The types of companies in Indonesia that are considered the most must apply the principle of sustainability performance, namely manufacturing companies. Manufacturing companies can have relatively high environmental and social damage. In addition, manufacturing companies have more complex activities and are more at risk of causing environmental damage than other companies [10].

A number of studies have proven empirically that sustainability performance is influenced by the dimensions of capabilities. In research [11] for example, it is explained that there is a positive influence between the dynamic integration of external capabilities with 3 pillars in sustainability performance. The three pillars are economic, social and environmental performance. Based on the theory of resource-based value (RBV), capabilities consisting of market orientation, entrepreneurship, organizational learning and innovation can affect performance [10].

Capability itself is a company's ability to use resources in organizational processes to achieve the company's final goals [10]. More than that, the capabilities of an organization can improve the relationship between organizational resources and organizational performance [12], [13]. In the RBV theory, it is explained that each company has a value that is rarely owned by other companies. The company can then distribute its resources and abilities to maintain a sustainable competitive advantage that will contribute to the company's performance. Based on that, capability becomes

one of the measurement tools that can be used by companies in implementing management control systems.

Referring to research [14] capability is a strategy that companies can use to improve the company's sustainability performance. Studies that have empirically proven the influence of capability dimensions on sustainability performance include [15], [16], [17], and [18]. Based on that, this study intends to examine the effect of these dimensions on capabilities on the sustainability performance of manufacturing companies in Indonesia. This research is expected to produce new concepts that companies can use to improve their sustainability performance.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

The Concept of Sustainability Performance

Various literatures mention different definitions of sustainable performance. Among them [1] which states that sustainability performance is usually evaluated based on multi aspects among three frameworks namely economic, environmental, and social. This sustainability performance has become very much considered by producers and consumers due to global climate change. As according to [5] the sustainability performance of a company can be seen from 4 indicators namely economic, environmental, social, and communication.

Economic indicators can be seen from the presence or absence of efforts to reduce costs, innovation, and include economic input for local infrastructure development. Environmental indicators can be seen from the presence or absence of a reduction in energy consumption, water, good waste management, and an increase in the characteristics of environmentally friendly products. Social indicators are measured from product responsibilities, responsibilities towards employees, applying human rights values and compliance with the law. While communication indicators are shown through the publication of sustainability reports and information on environmentally friendly company products and the process of industrial waste disposal.

Sustainability performance can be used by management to show responsibility for resource allocation so as to assess overall company performance. In this context, an assessment of the company's performance can be used by management to make decisions [5]. Sustainability performance arises from world concerns over the impact of environmental damage.

The sustainability of the company according to [19] is a combination of high economic value, social initiatives, and fulfillment of environmental norms. Meanwhile, according to [20] entering the industry 4.0 era, business is expected to be optimized simultaneously with the availability of sustainability characteristics, so business organizations need to focus on performance consisting of economic, social, and environmental, where all three are referred to as sustainability performance.

These three dimensions of sustainability performance are also used by research [21] which states that business sharing economy practices can only improve the dimensions of environmental performance within the framework of sustainability performance. In this context, not a few studies that cannot prove the effect of a variable on the overall dimensions of sustainability performance. In addition, research [22] mentions sustainability performance indicators consisting of 3 namely environmental, social and economic performance. These three indicators come from the triple bottom line concept.

Based on a literature study conducted by [23], there are 7 categories of organizational capabilities related to 10 categories of company sustainability benefits. Categories in the capabilities of the organization are interpreted as a capability of the company. The ability to collaborate in realizing sustainability, absorption of knowledge about sustainability, innovation or technology, motivation, external marketing / communication, flexibility / adaptation to sustainability issues, and management for sustainability in the company's operations process.

The 10 categories of sustainability benefits expected from these organizational capability categories are supporting environmental conservation strategies, innovation, environmental management systems, knowledge development, CSR

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/ environmental responsibility, environmentally friendly supply chain (supply chain), environmental collaboration, green marketing, and company performance [23]. Based on this, there is a strong relationship between capabilities and sustainability performance.

Sustainability performance can also be improved through human capital. As according to [24] that the influence of human capital has an impact on sustainability performance. So that the government should implement economic stabilization policies and increase investment in education to increase the accumulation of human capital in an effort to improve sustainability performance. Research [25] explains that there is a positive influence between agile capability and sustainability performance and company operational performance. In this research, sustainability practices in the supply chain can predict sustainability performance and operational performance mediated by agile capabilities. Based on that, capability can also be used as an intervening variable to improve sustainability performance.

The Concept of Capability

The basic theory that builds capabilities is the RBV. According to [26] the RBV theory focuses on creating sustainability competitive advantages that will benefit the company. Based on these arguments, resources and capabilities are two inseparable things. Organizational capability can be interpreted as the ability of a company to use its resources in organizational and operational processes to achieve the company's final goals [10]. Capability is also interpreted as a basic process that must exist in every organization that has 4 cores, namely managerial skills, organizational culture, organizational communication, and organizational reputation [27].

The concept of capability develops into dynamic capability as according to [28] that dynamic capability has 3 classifications namely technical, human, and organizational factors. Dynamic capability is the first requirement needed by all companies in facing dynamic market competition so that these companies can adapt to a dynamic environment [13]. According to [29] dynamic capability refers to a corporate base to create sustainable competitive advantage.

A number of researches view capability can strengthen a management control system to improve company performance [10], [30]–[32]. A number of studies have revealed that capability dimensions have been shown to affect sustainability performance. Among them according to [33] which states entrepreneurship orientation can affect performance by mediating innovation.

Research by [34] states that organizational capability is proven to significantly affect company performance. In this context, capabilities are interpreted as the ability of a company to mobilize resources, both tangible and intangible resources to carry out operational activities in order to improve performance

Hypothesis

Based on the presentation of the concepts of sustainability performance and capability, the hypotheses developed in this study are: 1) Innovation influences Sustainability Performance, 2) Entrepreneurship influences Sustainability Performance, 3) Market Orientation influences Sustainability Performance, and 4) Organizational Learning influences Sustainability Performance

RESEARCH METHODS

This research is a type of hypotetical research that aims to test the hypotheses of the research model that are compiled based on previous theory and research. The data analysis method uses Structural Equation Modeling (SEM) with Smart PLS application version 3. The population in this study is all accounting and financial managers, control managers, environmental managers, human resources, marketing, operations, and CSR from 116 listed manufacturing companies on the stock exchange. Furthermore, from this population only 45 companies have taken an annual report. Based on the purposive sampling method, respondents who were sampled became 185 managers from 45 companies. The data collection method uses a questionnaire developed from previous research by [10] and [5].

Table 1. Operationalization of Variables

Variable	Theoretical Concepts	Measurement Dimensions	Data Scale
Capability	The ability of a company to use its resources in organizational and operational processes to achieve the company's final goals [10]	Measured using instruments developed by [10]. With an interval scale of 1 to 6. Four dimensions, namely internal capabilities and external capability with indicators: market orientation, organizational learning innovation, entrepreneurship	Interval
Sustainability Performance	Sustainability performance can be used by management to show responsibility for resource allocation so as to assess overall company performance. In this context, an assessment of the company's performance can be used by management to make decisions [5]	Measured using instruments developed by [5]. With questionnaire scale 1 to 6, the four dimensions are social performance, environmental performance, economic performance and performance	Interval

RESULTS AND DISCUSSION

Results

Descriptive Statistical Analisys

The results of processing descriptive statistical data can be seen in the Table 2. Based on the results of the descriptive analysis of capability variables, the minimum and maximum values of the capability variables indicate that all respondents understood the questionnaire items by providing agreed answers, but from the standard deviation values indicating that the capability variables of the sample firms indicated that several items of questions were not implemented properly. This is indicated by the existence of several question items that have low value. Such items as questions about development to produce innovation are not optimal, but overall the innovation indicators are good enough with the average answer agreeing.

According to respondents, there is the lowest organizational learning indicator that is an effort to continue learning in order to improve new ideas and the company does not have a new view that provides organizational learning to employees as an investment. Another question that has a low value is not yet optimal integration of functions to meet market needs and commitment and orientation to totality to meet the needs of each consumer. In addition, the question items that have not been optimal in their efforts to adopt a competitive competitive strategy are not yet optimal observations of market share and competitors to be able to survive in the industry

The sustainability performance variable shows that the minimum value is 33 with a maximum value of 120, the mean value is 94.68 with a standard deviation value of 16.430. This shows that the sample company variables have fairly low variations. Overall understand the question items in the questionnaire and respondents have answered that the company has had a good sustainability performance with overall respondents have answered agreeing to almost all questions. But there is another question that has low value, namely regarding the involvement of local suppliers in providing raw materials.

Table 2 Descriptive Statistical Analisys

	N	Minimum	Maximum	Mean	Std. Deviation
Capability	185	25	96	74,00	13,162
Sustainability Performance	185	33	120	94,68	16,430

Source : Data proccessed

Validity and Reliability of Model Construct

The construct validity and reliability are seen from the value of composite reliability and AVE. If the instrument is declared reliable if the composite reliability value is more than 0.7, croanbach alpha is more than 0.7 and AVE is more than 0.5 [35], [36]. In more complete, the following test result is:

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Table 3 The Result of Validity and Reliability of Model Construct

	Composite Reliability	Decisions CR> 0,7	Average Variance Extracted (AVE)	Decisions AVE > 0,5
Innovation	0,926	Reliabel	0,758	Valid
Sustainability Performance	0,965	Reliabel	0,582	Valid
Entrepreneurship	0,936	Reliabel	0,784	Valid
Market Orientation	0,914	Reliabel	0,727	Valid
Organizational Learning	0,913	Reliabel	0,725	Valid

Source : Data Processed

Structural Model Testing (Inner Model)

Structural model testing in this study was conducted by looking at the R-Square value from the analysis results. This refers to the opinion [35] which states that structural model testing can be done by using R-Square which is a test of goodness of fit model. Here are the results:

Table 4 Inner Model Test Result

	R Square
Inovation	0,722
Sustainability Performance	0,805
Entrepreneurship	0,810
Market Orientation	0,752
Organizational Learning	0,689

Source : Data Processed

The R-Square value for the sustainability performance variable shows the number 0.805 which means that the variance that occurs in the sustainability performance variable is as much as 80.5 percent can be explained by the variance that occurs in the capability variable, with a distribution of 72.2% in innovation, 81% in entrepreneurship, 75.2 in market orientation, and 68.9% in organizational learning.

Hypothesis Testing

The result of hypothesis testing in this study is seen from the value of the Table 5. Based on the results of hypothesis testing, it can be seen that capability is proven to affect sustainability performance. The dimensions that contribute the most are entrepreneurship and innovation. While the dimensions of market orientation and organizational learning have not been proven to influence it.

Table 5. Hypothesis Test Results

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values	Description
Cap -> SP	0.644	0.645	0.089	7.235	0.000	Accepted
IN -> SP	0,307	0,299	0,116	2,646	0,008	Accepted
En -> SP	0,298	0,290	0,110	2,722	0,007	Accepted
MO -> SP	0,175	0,191	0,123	1,427	0,154	Rejected
OL -> SP	-0,033	-0,026	0,107	0,304	0,761	Rejected

Source : Data Processed

DISCUSSION

The Effect of Innovation on Sustainability Performance

Innovation significantly influences sustainability performance. The innovations made by the company include using environmentally friendly materials in product packaging and in the production process. Innovation in this context is also related to waste control, the use of technologies that are more environmentally friendly, and strengthen the brand image to win market competition. Innovation by the company is the maximization of the potential and the resources they have. On that basis, the results of this study strengthen the RBV theory which explains that if a company has resources that come from within and are developed over a long period, it will increase the company's sustainable competitive advantage. The results of this study support relatively similar to previous research by [15], [16], [17], and [18].

The Effect of Entrepreneurship on Sustainability Performance

Entrepreneurship significantly influences sustainability performance. Entrepreneurship that can be done by this company is related to the company's ability to read market opportunities and implement appropriate business strategies to win the competition. As with innovation, entrepreneurship is also an internal capability of a company that appears by maximizing the potential of its resources by trying to see the possibilities that occur in the market. Thus, the effect of entrepreneurship on sustainability performance in this study also strengthens the RBV theory. In addition, these results support previous research conducted [33].

The Effect of Market Orientation on Sustainability Performance

Market orientation does not affect sustainability performance. This is because Indonesian manufacturing companies tend not to maximize commitment and orientation to totality to meet consumer needs. In addition, the insignificance of market orientation is also due to the integration of functions to meet market needs. These findings indicate that the company has not maximally met the needs of consumers so that it will have an impact on the company's sustainability performance. In companies that produce paper, for example, market orientation tends not to be a concern because the company tends to have its own market share. This research is in line with research [10] which also has not been able to prove empirically that market orientation influences performance.

The Effect of Organizational Learning on Sustainability Performance

Organizational learning has no effect on the company's sustainability performance. This shows that the company has relatively not focused its efforts to continue learning in generating new ideas and the company considers that if it provides learning to employees it becomes an expense not an investment. This condition is not in line with the RBV theory which explains that companies must explore the resources that come from within the company both abstract and tangible to be able to produce capabilities and increase competitive advantage so that it will impact on sustainability performance and the company can survive in the industrial world.

CONCLUSIONS AND RECOMMENDATIONS

The conclusions that can be drawn from the results of this study are as follows: 1) The leaders of manufacturing companies in Indonesia tend to agree on the importance of sustainability performance, but have not fully implemented it., 2) Innovation and entrepreneurship are the dimensions of capability that have been proven to affect sustainability performance, 3) Market orientation and organizational learning have not been proven to affect sustainability performance.
Based on these conclusions, suggestions that can be given are: 1) Improving the company's sustainability performance can be done by strengthening the company's innovation and entrepreneurship. 2) The government needs to be more vigorous in socializing the importance of the company's sustainability performance as well as formulating appropriate regulations so that the dimensions of sustainability performance namely economic, social, environmental, and communication performance can really be the focus of corporate attention

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