

## THE POSITION OF ENVIRONMENTAL ACCOUNTING IN IMPROVING THE SUSTAINABILITY CAPACITY OF COMPANIES IN INDONESIA

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Article Info	ABSTRACT
<p><b>Article history:</b> Received July 05, 2024 Revised July 25, 2024 Accepted Aug 05, 2024</p> <p><b>Keywords:</b> Environmental Accounting, Corporate Sustainability, Indonesia, Resource management, Sustainable Development</p>	<p>This paper aims to examine the role of environmental accounting in enhancing the sustainability capacity of companies in Indonesia. Using a literature review methodology, this study analyzes secondary data from previous studies conducted between 2016 and 2024. Environmental accounting, which includes the identification, measurement, evaluation and disclosure of costs associated with a company's environmental operations, is increasingly recognized as essential for regulatory compliance and operational efficiency. Findings show that companies adopting environmental accounting practices benefit from improved resource management, reduced costs through energy efficiency and waste management, and enhanced reputation among stakeholders. In addition, the integration of social and environmental responsibility into business strategies is aligned with sustainable development goals, thus ensuring the long-term viability of companies. This study underscores the importance of transparent environmental reporting and strategic decision-making facilitated by accurate environmental information. This paper highlights the importance of transparent environmental reporting and strategic decision-making facilitated by accurate environmental information. A comprehensive review of the existing literature highlights the important function of environmental accounting in promoting sustainable economic growth and maintaining ecological balance within the corporate sector in Indonesia.</p> <p style="text-align: right;">This is an open-access article under the <a href="https://creativecommons.org/licenses/by/4.0/">CC-BY 4.0</a> license.</p> <div style="text-align: right;">  </div>

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### INTRODUCTION

In recent years, there has been increasing attention to environmental issues, especially in the business sector. Environmental accounting has emerged as an

important approach to measuring and managing the environmental impacts of business activities. In Indonesia, companies are beginning to realize the importance of environmental accounting as part of their sustainability strategy. Environmental accounting not only assists companies in meeting regulatory requirements but also in improving operational efficiency and corporate reputation in the eyes of stakeholders (Setiawan, 2020). This is important given the increasing pressure from society and government to adopt more environmentally friendly business practices. One important aspect of this initiative is environmental accounting, which aims to measure, record, and report information relating to the environmental impacts of a company's activities (Burritt & Schaltegger, 2016). Environmental accounting is a field that identifies resource use, measure and communicate the company's costs or national economic impact on the environment. Social or environmental accounting is needed by companies as a form of corporate social responsibility for the environment (Wijayanto, Winarni, & Mahmudah, 2021).

Environmental accounting depends not only on the accuracy in classifying all costs made by the company, but the ability and accuracy of the company's accounting data in suppressing the environmental impact caused by the company's activities. Another purpose of the importance of environmental accounting disclosure is related to environmental conservation activities by companies and other organizations, which includes the interests of public organizations and public companies that are local. This disclosure is especially important for stakeholders to understand, evaluate, and analyze so that it can provide support for their business. As an environmental management tool, environmental accounting is used to assess the effectiveness of conservation activities based on the summary and classification of environmental conservation costs. Environmental accounting data is also used to determine the cost of environmental management facilities, the overall cost of environmental conservation, and also the investment required for environmental management activities (Fadillah, Widyowati, & Nasution, 2023).

In Indonesia, environmental accounting still faces various challenges, including a lack of understanding of the importance of environmental accounting and the costs associated with its implementation. However, more and more companies are starting to see the long-term benefits of implementing environmental accounting. The study by (Herbohn, Walker, & Loo, 2022) showed that companies that successfully integrated environmental accounting in operations their operations tend to experience increase efficiency and reduction costs operational costs. This suggests that although there are significant initial costs, the long-term benefits of environmental accounting may exceed these costs.

This study provides a theoretical contribution to the environmental accounting and sustainability performance literature and provides practical insights for companies in the application of environmental accounting. The results of this study are expected

to help companies to understand the importance of environmental accounting in improving their sustainability performance.

### **Hypothesis Development**

According to (Kartika, Said, & Mediaty, 2020) Environmental accounting has received serious attention in linking business activities with environmental impacts, so that strategic planning and appropriate management decision making can be prepared if the financial statements include accounts related to the environment. Several studies empirically prove the positive role of the application of environmental accounting on the financial performance of the company. When companies apply environmental accounting and are able to show good environmental performance, the impact is on good financial performance. Environmental preservation provides benefits both for the surrounding community and also for companies, especially companies that utilize the environment and benefit from the environment. Based on this explanation, the hypothesis developed is:

**H1:** Environmental accounting plays a positive role in improving corporate sustainability performance

### **METHODS**

This research uses a literature review method based on secondary data sources from previous published research. According to (Synder , 2019) literature review is a method used to unite and draw conclusions from previous research as well as review some of the experts' overviews contained in the text. According to (Sugiono, 2017) secondary data is a source that does not directly provide data to data collectors. Secondary data collection sources can be journals, books, websites and so on

### **RESULT AND DISCUSSION**

#### **Results**

The concept of environmental accounting began to develop in the 1970s in Europe with the main objective of improving the efficiency of environmental management through evaluating the performance of corporate environmental activities. Environmental accounting includes the identification, measurement, evaluation, and disclosure of costs related to a company's environmental operations. These measures assist in the collection, analysis, and reporting of information on costs and benefits related to the environmental impacts of a company's activities (Schaltegger & Burritt, 2017). Environmental accounting is used to identify, allocate, and analyze the relationship between materials and cash flows through an environmental accounting system. Thus, environmental accounting aims to reduce environmental impacts and improve the financial performance of the company. The implementation of environmental accounting is expected to help maintain environmental sustainability and encourage corporate compliance with government regulations.

Stakeholder theory and legitimacy theory provide important frameworks in understanding the role of environmental accounting. Stakeholder theory emphasizes the importance of relationships with stakeholders and the company's obligation to consider the impact of its business activities on them. The focus of this theory is on maximizing value, not just financial value, but also value that customers, employees and other stakeholders consider important. Meanwhile, legitimacy theory relates to the company's efforts to increase public trust in business entities. Companies carry out social and environmental activities disclosed in annual reports to show that their activities are in accordance with applicable norms and are acceptable to society (Ramadhan, 2021). Environmental accounting helps companies manage natural resources more efficiently and reduce negative impacts on the environment. Transparency in environmental reporting can also improve the company's reputation in the eyes of stakeholders.

In addition, companies that adopt environmental accounting practices are often able to reduce long-term operating costs and improve financial performance (Adams & Frost, 2022). Accurate environmental information allows managers to make better strategic decisions regarding investments in green technologies and sustainability initiatives. However, the global ecological crisis caused by uncontrolled exploitation of natural resources is often triggered by the desire to increase economic growth and reap maximum profits. The absence of adequate social and environmental accounting information has caused financial information in financial statements to be considered less relevant and reliable, and misleading in making investment, operational and financing decisions. The concept of sustainability involves economic and business development that integrates the value of social and environmental responsibility. This approach emphasizes the importance of achieving economic growth and profit in a fair and sustainable way. Governments encourage companies to adopt social and environmental responsibility as part of their business strategy. Businesses respond by developing relevant and voluntary social and environmental responsibility practices, with the aim of supporting economic and business sustainability (Setiawan, 2020).

### **Discussion**

The implementation of environmental accounting in companies shows a significant development in modern accounting practices. Companies adopting this system not only aim to comply with government regulations but also to improve operational efficiency and reputation in the eyes of stakeholders. Transparency in environmental reporting not only increases investor and consumer confidence but also assists companies in identifying cost reduction opportunities through energy efficiency and better waste management. In this context, environmental accounting becomes an important tool that helps companies understand and manage the environmental impacts of their activities, which in turn can improve financial and operational performance.

The concept of sustainability in business emphasizes the integration of social and environmental responsibility in corporate strategy. This is not only important to meet

regulatory demands but also to ensure the long-term viability of the company. Relevant and voluntary social and environmental responsibility practices can assist companies in achieving equitable and sustainable economic growth, as well as increasing competitiveness in the global marketplace. By adopting this approach, companies not only demonstrate a commitment to sustainability but also build stronger relationships with their stakeholders, which in turn can bring long-term benefits to business sustainability

## CONCLUSION

Environmental accounting plays an important role in managing the environmental impacts of corporate activities and improving operational efficiency. Stakeholder theory and legitimacy theory provide a framework for understanding the importance of good relationships between companies and stakeholders and the general public. In the face of ecological and social crises, environmental accounting can assist companies in adopting more responsible and sustainable business practices. Thus, environmental accounting is not only relevant in the context of reporting and compliance, but also as a strategic management tool that can improve the company's competitiveness in a global market that is increasingly concerned with sustainability issues.

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