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Exploring the Influence of Green Accounting on Sustainability Performance: A Literature Review

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Abstract: This research explores the role of green accounting in promoting sustainability and its impact on organizational performance. Using the literature review method, relevant literature is selected and evaluated to extract important findings. The findings show that the implementation of green accounting can improve the financial performance of companies, especially in Indonesia and MSMEs in Central Java, by reducing production costs and strengthening the company's reputation. The results of this study provide insight into green accounting practices and the importance of environmental awareness in a business context, as well as its implications for investment decisions and customer perceptions.

Keyword: Green Accounting, Sustainability Performance

INTRODUCTION

In conventional companies, product production activities are only focused on transactions or financial events that have the main purpose of seeking maximum profit without paying attention to the company environment. So conservative companies and accountants (having the principle of maintaining prudence), that the costs of protecting the environment, providing environmental responses, treating waste, buying tree seeds, compensation costs, pollution costs, noise, damaged resource costs, environmentally friendly packaging costs are recorded and their recognition as periodic expenses and reporting are reported to reduce current period profits (Ratmono *et al.*, 2024). The company expresses the cost of caring for the environment only because of its good name, and CSR activities are only limited to community empowerment, and there is no conceptual framework of financial accounting standards in Indonesia related to *green accounting accounts* (Sun *et al.*, 2023).

It has been increasingly recognized the importance of integrating environmental considerations into accounting practices to promote sustainability. This recognition has given birth to the concept of green accounting, which involves the inclusion of environmental costs and benefits in financial reporting (Nie, 2019). As pressure mounts on businesses to address environmental concerns and demonstrate their commitment to sustainability, understanding the effect of green accounting on sustainability performance has become a very important area of research (Choiriah and Lysandra, 2023). The potential of green accounting to increase transparency and accountability in environmental reporting (Dr Rekha Sharma Dr. Pravin D Sawant and Dr Sanjay Kumar Dr Soumyashree N Hegde, 2023). By quantifying and disclosing environmental costs and benefits, green accounting can provide stakeholders with valuable information about an organization's environmental performance (Ghofar and Nuswantara, 2022). This increased transparency not only helps build trust with stakeholders but also allows organizations to identify areas for improvement and implement sustainability initiatives more effectively.

Companies to get the maximum profit, use non-renewable natural resources, which if done continuously, have an impact on exploitation and depletion of resources. This has an impact on environmental damage so that the company ignores the other 2 Ps, namely *planet* and *people* (Chairia *et al.*, 2022). Even though to renew these resources requires a long time, and large investments, this happens a lot to mining companies, construction companies, textile companies, chemical and drug companies. Another important aspect highlighted is the role of green accounting in driving innovation and fostering a culture of sustainability within organizations (Novovic Buric *et al.*, 2022). By integrating environmental considerations into decision-making processes, green accounting encourages the development of innovative and environmentally friendly products, services, and business models (Rahman and Islam, 2023). In addition, it helps align organizational goals with broader sustainability goals, leading to improved environmental performance and competitive advantage in the marketplace.

Industrial development gave rise to the industrial revolution, where companies process resources with machines and technology. Since then the activities of the world's population have increased through the consumption of fossil fuels from daily business activities (through land, water and air transportation), removing energy from households (the use of electricity, the use of air conditioners, refrigerators, opening factories by burning forests), the use of natural resources and certain harmful materials resulting in environmental damage (Srivastav, Singh and Kumar, 2014). The main aim of the study is to provide deeper insight into the role of green accounting in promoting sustainability and how it can affect organizational performance in the long run.

LITERATURE REVIEW

Green Accounting

Green accounting refers to an approach in accounting that takes into account environmental and sustainability aspects in the financial reporting process. It involves measuring, disclosing, and reporting the environmental costs and benefits of a business activity or project. The purpose of green accounting is to ensure that the environmental impact of economic activities is accurately reflected in a company's financial information, thus enabling more sustainable decision-making (Sarea, 2021). Another definition also states that Green Accounting can also be interpreted as an approach in accounting that takes into account the social and environmental impacts of economic activities and involves measuring, disclosing, and reporting practices related to sustainability aspects. This involves identifying and measuring environmental costs, as well as recording benefits resulting from sustainable business practices (Tu and Huang, 2015).

Research related to green accounting with sustainability states the impact of green innovation on environmental and company performance from the perspective of stakeholders. The findings suggest that green innovation can improve environmental performance and overall company performance (Weng, Chen and Chen, 2015). Other results studies also state in the findings the relationship between green innovation, financial performance, and corporate social responsibility. The results show that green innovation contributes positively to financial performance and corporate social responsibility (Huang and Li, 2017). Another study also states the development of social and environmental accounting research over the past 25 years. Identify achievements and shortcomings in this field, as well as provide direction for future research (Deegan, 2017).

The results of research from (Schaltegger and Burritt, 2018) state the business case and company involvement in sustainability from the point of view of ethical motivation. It also highlights the importance of understanding ethical motivations in driving corporate engagement with sustainability. Another similar study also stated.

Sustainability Performance

Sustainability Performance refers to a measure or evaluation of the extent to which an organization or entity can maintain or improve sustainability in its operational activities. It covers economic, social, and environmental aspects, and can be measured through various metrics and indicators relevant to sustainability goals (Lozano, 2015). Another definition also states that Sustainability Performance can also be interpreted as the ability of an organization or entity to achieve sustainability goals in the economic, social, and environmental contexts. This includes efficient use of resources, positive social impacts, and environmental protection efforts, The concept of sustainability performance is often studied in the context of business strategy, corporate social responsibility (CSR), and the integration of sustainability principles into organizational decision-making processes (Schaltegger and Burritt, 2018).

The results of research related to Sustainability Performance state that the sustainability performance evaluation model needs to be more balanced, appropriate criteria, and the relationship between criteria must be well determined and consider the subjectivity of qualitative criteria inherent in sustainability indicators. To overcome this subjectivity, group decision-making techniques and other analytical methods that can address uncertainty, conflicting indicators, and linguistic judgment can be used in future works (Büyüközkan and Karabulut, 2018). Another study also stated that the Dow Jones Sustainability Indices (DJSI) and environmental and social governance (ESG) measures are significant. Therefore, sustainability reports seem to reflect actual sustainability performance (Papoutsi and Sodhi, 2020).

METHOD

In the study "Exploring the Influence of Green Accounting on Sustainability Performance: A Literature Review", the method used is literature review. Literature review is a research approach that aims to investigate, analyze, and synthesize a collection of literature relevant to the research topic being studied. Search related literature from a variety of sources, including scientific journals, books, research reports, and other publications, which include information on green accounting and sustainability performance. Once the relevant literature has been collected, the next step is literature selection. Researchers select the most relevant and high-quality literature that suits the research objectives. Then, the selected literature is evaluated to extract relevant findings and information.

The next process is the synthesis of findings. Researchers integrate findings from selected literature to provide a comprehensive picture of the relationship between green accounting practices and sustainability performance. Information from various literature sources is combined and analyzed to construct a comprehensive understanding of the topic. Researchers interpret and infer literature findings. They drew conclusions and implications from the findings to discuss the effect of green accounting practices on overall sustainability performance.

RESULT AND DISCUSSION

Some of the literature found related to this topic is a finding that researchers consider to be representative of where it will be described by following ethics in literature research. The results study states that manufacturing companies in Indonesia have the capacity to implement green accounting by allocating funds for appropriate environmental costs, and part of it is allocated to implement CSMS implementation to improve financial performance. In the eyes of the Indonesian people, manufacturing companies that record good ratings in the company's performance evaluation program in environmental management initiated by the Indonesian Ministry of Environment are believed to be able to build customer loyalty, especially in the aspect of financial performance (Endiana *et al.*, 2020). Another result study states that the application of green accounting has an impact on increasing profits. Another advantage of reduced insurance costs and capital costs can be reducing total production costs, potentially increasing profits. A company with good CSR will certainly create a positive image and reputation among investors. This makes investors focus on the company's financial performance in considering investment decisions and corporate social activities. So many investors are interested in investing their capital to increase the profitability of the company. High profitability reflects the company's ability to earn high profits for shareholders. The greater the profit earned, the greater its ability to pay dividends, which has an impact on the value of the company (Lusiana *et al.*, 2021).

Other research results state that investors value the company's sustainability performance (achieved through social, economic, and corporate governance dimensions alone) as well as the quality of sustainability reporting. However, the environmental dimension of a company's sustainability performance lacks financial materiality for investors. In addition, the quality of sustainability reporting plays an important role in the value relevance of the corporate governance dimension as it is considered an alternative corporate governance mechanism by investors (Jadoon *et al.*, 2021). The results of other studies indicate that (Green Accounting) increases the positive relationship between (Islamic Finance) and (Sustainability Reporting). This research makes an additional contribution to knowledge about Islamic Finance and sustainability reporting by examining the role of Green Accounting in encouraging a friendly environment (Sarea, 2021).

Other outcome studies also state Environmental Awareness and Environmental Engagement have a positive and meaningful impact on Campus Sustainability. On the other hand, Environmental Reporting and Environmental Audit do not have a significant impact on Campus Sustainability (Arinta, 2022). The importance of improving as well as implementing new green accounting systems that ensure environmental safety and cleanliness, will contribute to the establishment of green accounting policies in companies (Bužinskienė, 2022). Other studies also state green accounting has a broader scope from internal and external perspectives. It has a wide variety of importance, and the importance of Green Accounting is on the rise rapidly in India (Sinha, 2021).

Another study found that green kuntansi had no influence on Corporate Social Responsibility Disclosure. Meanwhile, company size, profitability, media disclosure, and board of commissioners size have a positive and significant influence on Corporate Social Responsibility Disclosure (Agnes, 2023). Green accounting as an important part of corporate social responsibility involves identifying and measuring costs resulting from economic impacts on the environment. The concept of environmental sustainability is increasingly being applied by businesses in their daily activities. Green accounting is a concept that requires careful analysis of the costs and benefits of environmental pollution occurring in the context of business activities (Chotaliya, 2022).

Studies from (Rahmatika *et al.*, 2023) stated that Green Accounting has a positive impact on the Company's Sustainability Performance, while Material Flow Cost Accounting does not show a significant influence. Another study also states that through the implementation of the Corporate Sustainability Management System (CSMS), green accounting can improve the financial performance of manufacturing companies in Indonesia. Another study also states highlights the various pathways through which green finance affects carbon emissions, including green technology innovation and the ecological evolution of industrial structures (Xu, Feng and Zhu, 2023). Another study that states the implementation of green accounting practices can have a positive impact on efforts to prevent environmental pollution and improve business sustainability (Putra, Saputra and Sugiarta, 2021).

Another study states that the application of green accounting has an impact on increasing profits. Another advantage of reducing insurance costs and capital costs is that it can reduce total production costs, which has the potential to increase profits (Trisnawati *et al.*, 2022). The sustainable performance of MSMEs can be improved through the application of green accounting and financial performance. In addition, MSMEs' concern for the environment through green accounting can be an added value for MSME businesses in Central Java, Indonesia (Indriastuti and Mutamimah, 2023).

Some of the literature found on this topic provides valuable insight into the importance of implementing green accounting in improving a company's financial performance. Studies conducted show that manufacturing companies in Indonesia have the capacity to implement green accounting with the right allocation of funds for environmental costs. Part of this fund is used for the implementation of CSMS (Corporate Sustainability Management System) to improve the company's financial performance. Furthermore, manufacturing companies that have high ratings in the environmental performance evaluation program by the Indonesian Ministry of Environment are believed to be able to build customer loyalty, especially in the aspect of financial performance. Nevertheless, there are also studies that show that the application of green accounting not only has an impact on increasing profits, but also reduces overall production costs, by reducing insurance costs and capital costs. This shows that environmental awareness and financial performance of companies are interrelated, where companies with good CSR practices have a positive reputation in the eyes of investors, which in turn attracts investors to increase the company's profitability.

On the other hand, the literature also highlights that investors value a company's sustainability performance, but pay less attention to the environmental dimension in their assessments. Nonetheless, the quality of corporate sustainability reporting plays an important role in the value relevance of the corporate governance dimension, as it is considered an alternative mechanism of corporate governance by investors.

In addition, research shows that green accounting has positive implications for a company's sustainability performance, while environmental reporting and environmental audits do not have a significant impact. The implementation of the company's sustainability management system also proves that green accounting can improve the financial performance of manufacturing companies in Indonesia. In the context of MSMEs, research shows that the application of green accounting not only improves financial performance, but also provides added value for MSME businesses in Central Java, Indonesia, through concern for the environment.

From the perspective of this research, it is important to consider that the application of green accounting can have a positive impact on a company's financial performance, improve sustainability, and strengthen a company's reputation in the eyes of investors and customers. However, there is a difference in emphasis on the environmental dimension in investor assessments, which points to the need to continuously raise awareness about the importance of social and environmental responsibility in business practices.

CONCLUSION

Highlighting the importance of implementing green accounting in improving the company's financial performance, especially in the context of manufacturing companies in Indonesia and MSMEs in Central Java. Findings from various literature show that green accounting can contribute positively to a company's bottom line by reducing production costs, improving a company's reputation in the eyes of investors and customers, and strengthening sustainability performance.

In particular, the findings from this study make an important contribution to knowledge of green accounting practices and their impact on companies' financial performance. The study also highlights the importance of environmental awareness and concern for social responsibility in a business context, as well as its implications for investment decisions and customer perceptions.

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