

Application of Environmental Accounting for Company Performance

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Abstract

This research aims to see how the company's performance will be affected by implementing environmental accounting. This research will then use a qualitative approach as the research method. The data used in this study came from various research results and previous studies still related to this research. In its analysis, this research looks at the impact given by the implementation of environmental accounting on the performance of the company. In addition to the positive effects, this study also looks at the obstacles when implementing environmental accounting. The results of this study found that an impact comes from implementing the environment for the company's performance. The positive effect of this implementation is an increase in the company's environmental performance, thus providing a competitive advantage and added value for the company itself. Then the implementation of environmental management accounting will also help companies to be able to maximize profitability and profits with a long-term nature and assist management in making decisions. The obstacle in implementing environmental accounting is that there is still a sense of compulsion in the application of environmental accounting because it is an obligation written in regulations that need to be obeyed. This then causes the application of environmental accounting not to be maximal.

Keywords: Company Performance, Environmental Accounting, Implementation

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INTRODUCTION

The issue of the environment today is getting more attention and is considered an important issue. How not, in many cases of environmental damage that occur unconsciously, the impact of environmental damage is starting to be felt at this time. There have been numerous demands to preserve the environment, yet this does not appear to be affecting the reality that environmental damage is increasing (Mitrano et al., 2021). The environmental damage is caused by the company's operations, and it is required to have a control instrument and a governance system for the environmental damage created by the company's operations. Environmental accounting is regarded as the most effective method for addressing the issue of environmental degradation. Environmental accounting is a kind of corporate responsibility for managing the environmental impact of a company's operations (Garcia-Muia et al., 2018).

However, the application of environmental accounting is also not without problems, and many things still need to be addressed in its application. In this case, a lack of individual and community awareness is the cause of the less than the optimal application of environmental accounting. As in Indonesia, the discharge of wastewater from one industry or deviant logging of forests has always been in the

spotlight (Tilt, 2018). Environmental problems with waste pollution, for example, many companies have had their operations terminated because of environmental problems polluted by these companies. For example, the issue of waste pollution by PT Indorayon several years ago in Porsea, North Sumatra, resulted in the government's termination of the company's operations due to environmental problems and community problems around the industry (Li et al., 2021). Another issue relates to several paper companies in Riau which received protests from the local community regarding the problems of industrial waste and environmental pollution. Not to mention the difficulty of PT Lapindo Brantas in Sidoarjo with the continuous mud that causes environmental damage and neglects thousands of surrounding communities, which to this day has not been resolved (Purwanto, 2018).

Human activity is recognized as a significant driver of global environmental change. Other opinions contend that environmental accounting and reporting are crucial, and that environmental accounting must serve as a tool for measuring the economic efficiency of environmental conservation activities and the environmental efficiency of the company's business activities as a whole (ÓhAiseadha et al., 2020). Globally, the negative environmental repercussions of economic expansion have become a major source of public concern. This greater attention can lead to increased costs and lower profits. In addition, accounting also has positive impacts, such as improving company performance by developing a well-articulated environmental costing system to ensure the conflict-free business environment managers and employees want for maximum productivity (Tisdell, 2020).

The negative impacts of human activities on the environment were also found, such as global impacts (climate change, ozone depletion, pollution of seas and rivers, and forest spoliation); regional (results of industrial accidents, water pollution, and air pollution); as well as local impacts that result in significant social and environmental effects, but these regional imbalances can be addressed appropriately and recognized by the authorities, can be limited, analyzed, and eliminated by decisions that are integrated with environmental policies (Meena et al., 2021).

However, another journal also stated that when viewed from the perspective of social accounting and environmental performance, the conventional profit concept shows a bias in performance measurement. In addition, Mcnellis said that the performance damage that often resembles precision is reduced (Cao et al., 2021). Such as lack of client record skepticism, less conservatism, and greater dependence on previous work is a big concern related to professionalism in work. Thus, with this phenomenon, researchers feel related to conducting research and assessing the performance impact caused by environmental accounting (Grubbs et al., 2020).

Awareness or the ability to act thoroughly and appropriately is one of the top five broadest performance enhancements and can be considered a personality trait. In addition, hardiness has been demonstrated to mitigate the effects of job burnout and withdrawal intentions in an accounting environment. This is seen in those with a natural ability to comprehend and manage stressful situations (Butt & Ahmad, 2019). In addition, the constructs of conscientiousness and toughness have

a substantial relevance in agreement with the performance of effective tasks accurately to completion in an accounting environment. Despite this, there is a dearth of research on these shared characteristics in contemporary accounting literature. Thus, the current study extends the investigation of tenacity in environmental accounting by examining its effect when juxtaposed with conscientiousness on accounting task performance (Bardach et al., 2021). This study also discusses how awareness has been consistently identified as a favorable predictor of performance. Multiple research demonstrate a negative correlation between cognitive ability and performance. By emphasizing enhanced task performance and error detection, which have implications for fraud and risk investigations, the results give additional evidence of the applicability of solid personalities for handling public accounting situational stressors (Yücel, 2021).

The content and context of environmental accounting and accounting practitioner academics have a twin relationship and coexist as the basis for innovation capacity against reasons for assessing innovative capacity on organizational environmental performance and related accountability. Local governments have also been encouraged to create appropriate management systems to support the planning and policy-making environment and involve all sectors of local communities to meet environmental objectives, as mechanisms for implementing sustainable development at the regional and local government levels have an essential role. The increasing importance of environmental data can exacerbate concerns about appropriate accounting presentations and disclosures used to successfully implement environmental strategies in companies (Burritt et al., 2019).

In addition, companies and governments are starting to worry about the impact of company operations on the environment and society, and individuals to become more aware. It is a fact that every operational process can potentially negatively impact ecological and social systems (Di Vaio et al., 2020). In addition, there are international environmental concerns like emission standards, waste management, air and water pollution, climate change, extraction of consumable resources, biofuels, energy conservation, biodiversity, desertification, forestry, agriculture, land use, livestock, food security, population, poverty, urbanization, transportation, carbon security, El Nino, environmentally friendly technology, and production systems (Shehata et al., 2022). Thus, it strengthens the reason for researchers to examine more deeply whether environmental accounting plays an influential role in its performance in every problem in each region or country.

LITERATURE REVIEW

Voluntary/Discretionary Disclosure Theory

Voluntary/discretionary disclosure theory says that corporations are encouraged to share more positive information about themselves (good news) in order to differentiate themselves from other companies that have negative information (bad news) and to benefit the company itself. Good environmental performance is beneficial for businesses, so companies with good environmental performance will be encouraged to disclose it to investors and other interested parties. This is done by disclosing more company environmental information voluntarily. The revealed information may include strategies, policies, actions,

performance, and expenditures associated with the environment (Abdullah & Yuliana, 2018).

Companies will not make more and broader disclosure of these matters through voluntary disclosure with poor environmental performance. Companies with poor environmental performance will select "silence" or restrict their environmental exposures so that stakeholders are unable to discern the actual situation. Thus, the voluntary/discretionary disclosure hypothesis predicts that the revelation of environmental information will have a favorable effect on environmental performance (Terlaak et al., 2018).

Adam Smith's Corporate Theory

According to Adam Smith's theory of the firm, a company's sole purpose is to generate profits in order to satisfy the needs of its owners. However, the company's profit may not be realized if the business environment in which it works is disregarded. A business that adheres to the Triple Bottom Line strategy (social, economic, and environmental performance) contributes to sustainable development (Pies et al., 2021).

Conservatism Theory

This theory describes conservatism as the idea of prudence in financial reporting, and corporations are not in a rush to recognize and measure assets and profits, as well as to instantly acknowledge potential losses and debts. Applying this principle results in the choice of accounting method aimed at the technique that reports lower income or assets and reports higher debt (Widhiastuti & Rahayu, 2022). Thus, lenders will receive downside risk protection from balance sheets that present net assets and financial statements that report bad news promptly. So it can be said that the theory of conservatism with the choice of this accounting method will improve the quality of earnings and the quality of performance because it discourages corporations from overstating earnings and assists users of financial statements by providing results that are not inflated (González et al., 2020).

Environmental Accounting

Environmental accounting emerged in the 1970s due to increasing environmental awareness and social and environmental welfare concerns. The financial accounting component of environmental accounting is easily accessible through annual reports, sustainability reports, and other reporting media, whereas management accounting information pertaining to operations is typically regarded as internal and secret (Chung & Cho, 2018).

Environmental accounting is defined by the AICPA as accounting that involves the identification, measurement, and allocation of environmental costs, which are then incorporated into company decision-making and presented to stakeholders. Environmental accounting encompasses the indirect costs and benefits of economic activities, such as environmental repercussions and health consequences of company planning and decision-making (Ballou et al., 2018).

Environmental accounting can provide enormous benefits to individuals and businesses when correctly implemented. These advantages include:

- a) This might increase the company's revenue due to the enhancement of its image and products.
- b) Environmental accounting can increase the appeal of a company's stock to investors by improving the company's or product's image and environmental risk rating.
- c) Due to positive environmental risk situations, environmental accounting can ensure improved access and terms from financial institutions.
- d) Environmental accounting assures compliance with environmental rules, thereby minimizing the risk of incurring future financial losses due to environmental accidents.
- e) Environmental Accounting raises the prominence of the company as a result of the rise in environmental responsibility.
- f) Environmental Accounting can lead to new discoveries when firms recycle what was once considered garbage to produce new products (Barauskaite & Streimikiene, 2021).

Performance

a) Performance

Finance Generally, a company's financial performance demonstrates its financial health during a given period. Profit, returns, market share growth, return on investment, equity, and liquidity can all be used to evaluate a company's financial performance (Devi et al., 2020).

b) Environmental Performance

Environmental performance is one of the many essential indicators of a company's success. Environmental costs are one of the many expenditures that businesses spend in order to provide their customers with goods and services. The management should focus on environmental costs and performance for the following reasons:

- 1) Numerous environmental expenses can be drastically lowered or eliminated as a result of business decisions, including operational and housekeeping adjustments, investments in better process technology, and process/product redesign.
- 2) Environmental costs and possible savings may be masked or neglected by the overhead account. This will result in inaccurate cost information, bad managerial decisions, and inadequate reporting.
- 3) Numerous businesses have discovered that environmental expenses can be mitigated through the sale of garbage, transferrable pollution byproducts or allowances, or clean technology licensing.
- 4) A more effective management of environmental expenses can result in enhanced environmental performance, as well as substantial advantages for human health and corporate success.
- 5) Understanding environmental costs and product and process performance can lead to more accurate product pricing and costing, and can aid in this endeavor.
- 6) Future processes, products, and services are designed to be environmentally desirable (Madime & Goncalves, 2022).

Processes, products, and services regarded ecologically favorable can provide a competitive edge with customers.

METHOD

This research will be carried out using a qualitative approach the method. The data used in this study came from various research results and previous studies, which are still relevant to this research. Data collected will be analyzed immediately so that researchers can find the results of this study.

RESULT AND DISCUSSION

1. Environmental Accounting Implementation

Several environmental accounting factors have an impact on company performance, both positive and negative impacts. As in the following sources, the measures of violence show a positive and statistically significant link with task satisfaction, but the relationship between conscientiousness and happiness is otherwise insignificant. This correlation demonstrates the distinctions between the two personality qualities and the activation of toughness during bank reconciliation tasks. Thus, the results are consistent with the idea that solid subjects can have a deeper appreciation for reconciliation actions. In other fields, environmental accounting has become an integrated reporting standard targeted at organizations of all sizes in Indonesia across various private, governmental, and non-governmental. Through transdisciplinary academic study, which is the essence of the environment's transition from performance accountability to environmental sustainability, it is assumed that future environmental performance accounting researchers will employ a variety of methodologies.

2. Positive Impact of Financial Accounting Implementation

Environmental accounting also has an impact on increasing the quantity of information in the five-perspective SBSC (financial, customer, process, learning, and community) which can increase information opportunities, an advantage over the four-perspective SBSC (financial, customer, process, and knowledge), by adding the five perspectives of this scorecard can be considered as a higher level of task difficulty, and an increase in difficulty may be sufficient to reduce the increase in performance.

According to further sources, management environmental accounting is a complete method for incorporating environmental factors into company decisions. The incorporation of internal environmental costs into the company's accounting will aid its efforts to enhance its present profitability. The corporation can then be steered to maximize its long-term earnings by considering external environmental costs, particularly to the extent that future internalization of these costs may be required. Adopting this strategy can help the corporation strengthen its competitive position vis-à-vis a certain competitor.

In addition, other elements such as EMA (Environmental Management Accounting) influence environmental accounting performance, which functions as a mediator between environmental strategy and environmental performance. It is said that there is no substantial discrepancy between the PROPER (Company Rating Program in Environmental Management) rating and respondents' judgments of environmental performance, indicating that the core model's conclusions are already robust. This conclusion demonstrates that these results for the two environmental performance indicators are not affected by any systematic bias. The more the environmental focus of a company's strategy, the larger its impact on the usage of EMA (Environmental Management Accounting).

Using EMA (Environmental Management Accounting) as an intangible asset has benefited businesses by giving information on their operational operations, particularly those related to the environment, as well as the results of strong environmental performance. And environmental initiatives can have direct or indirect effects on environmental performance via EMA (Environmental Management Accounting). There is empirical evidence of a positive and statistically significant relationship between environmental strategy and the usage of EMA (Environmental Management Accounting), which can improve the quality of the organization.

It is also claimed that accounting is successful in revealing the efficiency of the economic unit in its social responsibilities, particularly in controlling environmental pollution, as was the case previously. Disclosing appropriate and sufficient information about the efficiency of economic or financial performance will undoubtedly play a crucial role in changing the behavior of decision-makers and people who are interested in economic unity and increasing their profits when m In addition, because voluntary disclosure of environmental information encourages large companies to report environmental information in their annual reports more frequently than medium-sized businesses, exposures tend to be qualitative rather than quantitative, despite the fact that there is a significant correlation between environmental accounting and firm performance.

3. Barriers to the Implementation of Environmental Accounting

But another opinion states that environmental performance has an insignificant positive effect on the disclosure of environmental information. This little relationship is related to the disclosure of environmental information that is not monitored, so that company management is free to use discretionary information reports. Environmental accounting is still plagued by a lack of information support, qualified employees, and a proportional international accounting methodology. In recent years, efforts to expand environmental information systems have resulted in the development of a proportionate administration system (Environmental Management System) that faces difficulties in maintaining complex environmental data.

On the basis of past research, the effect of environmental expenses on the performance of oil corporations in Nigeria's Niger Delta countries.

Following a comprehensive time series analysis, these findings demonstrate that environmental expenses have a major impact on firm performance in Nigeria's oil sector. Thus, this explains the high level of change in the company's performance. Consequently, expenditures associated with community development, waste management, and staff health and safety have had a considerable impact on the success of corporations in the Nigerian oil sector. Adediran and Alade's research demonstrates a substantial negative association between environmental accounting and Return on Capital Employed (ROCE) and Earnings Per Share (EPS) and a large positive relationship between environmental accounting and net profit margins and dividends per share. On the basis of this information, it is proposed that the government grant tax credits to organizations that comply with its environmental regulations and that environmental reporting become mandatory in Nigeria in order to improve the performance of the organization and the country as a whole.

The application of environmental accounting researched by Iqbal shows that environmental accounting has not been able to influence the company's value because, in some companies, the application of environmental accounting is applied. After all, it is required by the government, which proves the low awareness of the management. Meanwhile, environmental performance in this study could affect the company's value. And based on the overall findings of Hussain, Halim, and Bhuiyan's review, environmental accounting is a crucial issue for sustainable development, particularly to focus on environmental taxes, environmental costs, assessing ecosystem services, costs of carbon dioxide, costs of water pollution, and ensuring the sustainability of income from paving the way to sustainable development.

CONCLUSION

This study's findings and discussion indicate that environmental accounting has both good and negative effects. Environmental accounting can have a beneficial impact on performance. In addition to having a positive effect on performance, it also has a positive effect on environmental performance. It is positively tied to the organization's finances, hence accountants are in charge of evaluating environmental accounting performance.

In some cases, companies that apply environmental accounting positively impact environmental performance so that companies gain a competitive advantage and increase added value. In addition, using one of the environmental accounting concepts, namely environmental management accounting (EMA), will help companies work to maximize long-term profitability and profits and assist management in making decisions.

However, with the existence of environmental accounting, it is undeniable that it also harms the company. This can be seen in the phenomenon under study, and it is known that it still cannot change performance related to the environment. In some companies, the application of environmental accounting has not been able to affect the company's value because the application of environmental accounting has become a requirement by regulations (compulsion), proving the lack of

awareness of the management so that the implementation of environmental accounting is not optimal. In other cases, environmental accounting has a negative impact because information about environmental accounting is not monitored, so environmental accounting has a negative impact.

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