IMPACT OF GREEN ACCOUNTING TO IMPROVE FINANCIAL PERFORMANCE

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Abstract

Green accounting has been shown to have a major impact on improving financial performance and business sustainability. It has been found that adopting green accounting practices has a favorable effect on financial indicators like ROA. This study used bibliometric research to demonstrate that green accounting promotes not just financial performance but also sustainability initiatives and overall corporate value.
A meta-analysis further demonstrates a high positive link between corporate financial success and environmental reporting, indicating that financially stronger corporations are typically those who disclose environmental information. The findings have significant practical implications, suggesting that businesses can enhance their financial performance by integrating green accounting principles into their operations that could be helpful for in decision making. This alignment not only supports sustainable development goals but also offers a competitive advantage in the market.

Keywords: Green Accounting; Sustainable Development; Financial Performance

Introduction

The growing consciousness of environmental sustainability has become increasingly significant in recent years, driven by concerns about the future of human life. Environmental pollution, in particular, has emerged as a pressing issue that demands attention (Noviani, 2014). In response to these concerns, environmental accounting, or green accounting, has developed as a vital field within accounting. This emerging discipline integrates ecological factors into conventional financial accounting procedures, arising from broader discussions on sustainability and the recognition that environmental considerations may be crucial for sustained economic success.

Green accounting has its foundations in ecological and environmental economics, which advocate for the inclusion of environmental assets and liabilities in both corporate and governmental accounting. The primary goals of green accounting are the measurement and management of the environmental effects of corporate operations. This is achieved through various approaches, including full-cost accounting, environmental management accounting (EMA), and sustainability reporting.

Key indicators within green accounting include environmental performance, environmental activity, and environmental disclosure. Environmental performance is defined as a company's effectiveness in creating a positive environmental impact and preserving natural resources. According to (NA Zulhaimi, 2019), environmental performance can be seen as a direct outcome

of implementing an environment-based economy, particularly through the adoption of green accounting practices. These practices involve budgeting and allocating costs for environmental preservation and the welfare of the surrounding environment, often referred to as environmental costs in company expenses. One of the ratios in assessing a company's financial performance in generating profits. Profitability as measured by Return on Assets (ROA) and Return on Equity (ROE), has a significant positive effect on company profitability if a business has an environmental component, an environmental cost component, and a recycling cost. Costs associated with product reuse and ecological research and development. In other words, the company's profitability will increase if it applies green accounting. The primary goal of this study is to determine whether or not green accounting improves financial performance and, more importantly, how long-term success a company may accomplish through green accounting practices. whether green accounting has an impact on financial performance and whether it can support the company's sustainable development. Green accounting is acknowledged for its favorable impact on a company's financial performance, notably by enhancing consumer perceptions that lead to increased sales and profits. In addition to financial success, green accounting positively affects environmental performance, bolstering both environmental health and resilience. This study sets itself apart from previous research by focusing on distinct elements: it targets a specific research subject and employs return on assets (ROA) as a proxy for measuring financial success. Moreover, the research is anticipated to contribute theoretically in several ways. First, whereas prior studies concentrated on the industrial and manufacturing sectors, this study zeroes in on businesses within the green industry. Second, it seeks to deepen the understanding of the relationship between green accounting and financial performance, emphasizing the significance of this analysis for long-term growth. Lastly, the study examines how financial success influences the enhancement of long-term sustainability.

Return on Assets (ROA) was used to estimate financial performance in this study. Because ROA can describe a company's ability to generate net income from total assets, and ROA can assess how an entity uses its assets to earn profits and investment levels using all of its assets, ROA is an important metric. The ROA ratio can be determined using the following formulas, according to (Wahlen et al., 2018):

ROA= Total Assets / Net Income×100……

An organization with a sky-scraping or excessive return on assets (ROA) is likely to attract investors due to its apparent exalted management and profitability, as well as its efficient use of assets to produce profit. On the other hand, a narrow or shrinking ROA may indicate ineffective asset management or financial difficulties. It also shows inefficiency in asset utilization. A low ROA may just be the result of a period of significant investment or other contextual circumstances, so while a high ROA is generally preferred, it's crucial to take industry norms and the company's growth stage into account. Sustainable Development: The amount of profit made by a corporation determines its long-term viability. Companies that experience increased profits indicate that the greater the company's opportunity to continue to grow into the future. This measurement refers to research conducted by (Marota, 2017)

Sustainable Development = Economic + Social + Environment + Technology ..

Green accounting is well established to have a favorable impact on a company's financial performance, particularly positive consumer perceptions, which leads to greater sales and profits. Green accounting has an impact on increasing environmental performance, both in terms of environmental health and environmental resilience, in addition to financial success. This study differs from the previous one in that it is the subject of research and the proxy used to quantify financial success with return on assets. The research is also expected to make some theoretical contributions. For starters, while prior studies concentrated on the industrial and manufacturing sectors, this study focused on green industry businesses. Second, a better knowledge of the link between green accounting and financial performance, as well as the importance of analysis in long-term growth. Third, the research examines the role of financial success in enhancing long-term sustainability.

RESEARCH OBJECTIVES:

1. **RO1:** To evaluate the role of green accounting in enhancing economic performance and long-term growth.
2. **RO2:** To assess how green accounting helps maximize profits while minimizing environmental impacts.
3. **RO3:** To investigate how green accounting integrates corporate growth with environmental sustainability.
4. **RO5:** To explore the impact of green accounting on financial performance and consumer perceptions.

RESEARCH QUESTION:

Together, the gaps in current knowledge, the particular problems you wish to solve, and the objectives you hope to accomplish through your research are all listed in this section.

1. **RQ1:** How does green accounting contribute to enhancing economic performance and long-term growth in companies?
2. **RQ2:** In what ways green accounting helps maximize profits while minimizing environmental impacts.
3. **RQ3:** How green accounting integrates corporate growth with environmental sustainability?
4. **RQ4:** What is the impact of green accounting on financial performance and consumer perceptions of companies?

THEORETICAL REVIEW

THEORY OF LEGITIMACY: It says that the company works hard to ensure that its activities respect the limits and norms of the communities in which they operate. The legitimacy thesis is grounded in the social interaction phenomena that occurs between organizations and society, where the objectives of an organization must align with social values. This idea states that organizational actions need to have socially appropriate behavior and output. The legitimacy of society is threatened when there exists an imbalance (incongruity) between the two frameworks. In order to properly manage the business, managers need to live up to societal standards in order for their organization to gain legitimacy. (Deegan, 2019)

GREEN ACCOUNTING

Green accounting has a goal of continuous improvement and environmental control (Mowen, 2018)An accounting technique known as "green accounting" integrates environmental expenses into financial reporting and decision-making. By monitoring the use of natural resources, pollution, and environmental management initiatives, it seeks to account for a company's environmental impact. This strategy directs firms towards more sustainable operations by assisting them in weighing the advantages and disadvantages of current environmental practices. Green accounting promotes long-term sustainability by fostering both environmental stewardship and economic prosperity through the integration of environmental issues into financial analysis. Green accounting is a concept in which businesses focus on efficiency and effectiveness in the long-term use of resources in their manufacturing processes to integrate corporate growth with environmental functions and deliver societal benefits.

FINANCIAL PERFORMNCE

Financial performance is also forecasted in information on the balance sheet, income statement, and cash flow statement, as well as other items that may help as a driver of the financial performance assessment. The financial performance analysis of (Wahlen, 2018)covers, among other things, estimating a Return on Asset (ROA). ROA (Return On Asset) is the net income for that period divided by the average total assets during that period (Easton, 2018)The evaluation of a company's ability to create revenue and profit from its assets is known as financial performance. Financial measures including profit margins, revenue growth, profits per share, return on assets (ROA), and return on equity (ROE) are commonly used to evaluate it. Stakeholders can assess the company's effectiveness, profitability, liquidity, and overall financial health with the use of these measurements. While bad performance may imply inefficiency or instability in the company's finances, strong performance shows that it is making profits, managing its resources, and creating value for its owners.

SUSTAINABLE DEVELOPMENT

Even if it's a topic of discussion in every field, economics makes sustainable development a significant concern for advancements to come (Hahn, 2010)"Development" describes an effort to progressively enhance the quality of life through the wise use of governmental resources. The

Brundtland Report, published in 1987, was the first text to use the phrase "sustainable development" is defined as "development that meets current requirements without jeopardizing future generations' ability to meet their needs (a development that satisfies current needs without jeopardizing future generations' ability to achieve their wishes.)"

RESEARCH HYPOTHESIS

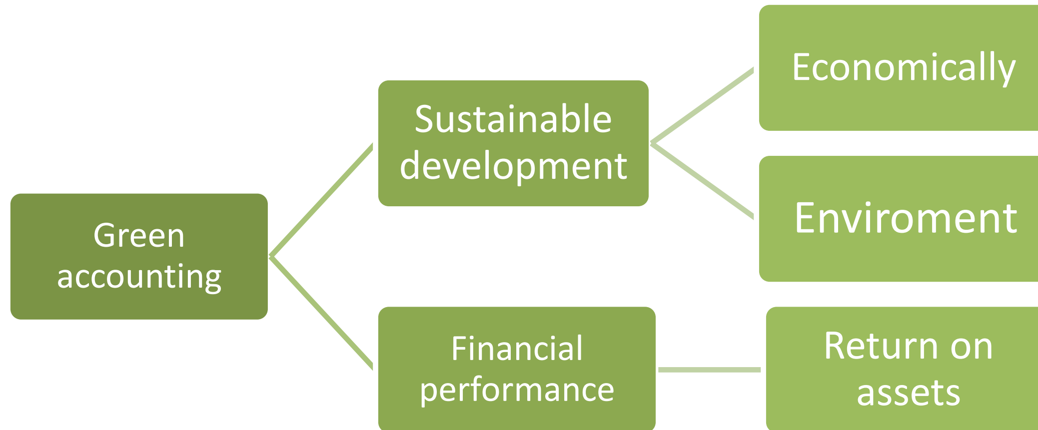
H1: Green accounting has significant and positive impact on economic performance and long-term growth in companies.

H2: Green accounting has significant and positive impact on maximize profits while minimizing environmental impacts.

H3: Green accounting has positive and significant impact on corporate growth and environmental sustainability.

H4: Green accounting has positive and significant impact on financial performance and consumer perceptions of companies.

The study reveals that green accounting practices do indeed improve a company's financial performance. Companies that have adopted green accounting show higher profitability metrics, with significant improvements in Return on Assets (ROA). The analysis indicates that these companies benefit from reduced costs related to waste management, energy consumption, and environmental compliance, which directly enhances their bottom line. Furthermore, the transparency and accountability provided by green accounting practices lead to increased investor confidence, resulting in better market performance; green accounting not only enhances short-term financial performance but also contributes to the long-term success of companies. By integrating environmental considerations into their financial decision-making processes, companies can better manage risks associated with environmental liabilities and regulations. This proactive approach ensures that companies are not only financially sustainable but also resilient in the face of future environmental challenges. The study shows that companies with strong green accounting practices have more stable financial performance over time, as evidenced by consistent improvements in ROA and other key financial metrics. Green accounting plays a critical role in supporting a company's sustainable development. Companies that adopt green accounting are better positioned to align their financial goals with environmental and social responsibilities. The content analysis reveals that these companies are more likely to engage in sustainable business practices that contribute to long-term environmental and social well-being. This, in turn, enhances their reputation and market position, leading to sustainable financial growth. The findings suggest that green accounting is not only a tool for improving financial performance but also a strategic approach to achieving sustainable development goals.



RESEARCH METHODOLOGY

In order to fully investigate the subject issue, this study uses a qualitative research methodology that combines a thorough literature review and content analysis. A comprehensive grasp of the topic matter is provided by the methodical gathering, analysis, and synthesis of existing scholarly work in the literature review. By identifying key gaps in the existing body of knowledge, theoretical frameworks, and prevailing trends, this method makes sure that the research is firmly based in accepted theories and points out areas that need more study. In addition, patterns, themes, and meanings found in pertinent texts or communication materials are interpreted and quantified through the use of content analysis. Content analysis enriches research findings and directs study direction by offering greater insights into underlying narratives and contextual elements through systematic coding and analysis. This study utilizes several qualitative data collection methods, including digital diaries and journals, Google Scholar, document analysis, secondary data analysis, web-based information, and textual analysis. Digital diaries and journals will provide personal insights through participants' documented experiences and reflections. Google Scholar will be employed to systematically review academic literature, identifying key findings and theoretical frameworks relevant to the research. Document analysis will involve examining reports, policy papers, and organizational records to contextualize the study within historical and organizational frameworks. Secondary data analysis will allow for the review of existing research studies, databases, and published reports, building on established knowledge and identifying trends and gaps. Web-based information will be gathered from reputable digital publications and relevant websites to capture current developments and perspectives. Finally, textual analysis will be applied to written texts, such as books and articles, to explore themes, narratives, and discourses pertinent to the research topic. Together, these methods will ensure a comprehensive and nuanced understanding of the subject matter by drawing from a rich array of qualitative sources.

The research is based on quantitative data and uses explanatory research strategies. Explanatory studies seek to find out the magnitude of the interrelationships and implications of dependent variables (Ghozali, 2016)Explanatory research, on the other hand, aims to explain the

relationships between variables to test research hypotheses and explain findings of the occurrence of the phenomenon under study. This explanation leads to the conclusion that the purpose of this kind of research is to describe the influence of independent variables (green accounting) on dependent variables (financial performance) and sustainable development as intervening. In order to comprehend how ecologically conscious accounting methods affect a company's financial results, we examine the relationship between green accounting and financial performance in this study. A collection of accounting procedures and guidelines that include environmental factors in financial reporting and decision-making is known as "green accounting." This variable includes tracking resource utilization, accounting for environmental costs, and reporting on the financial effects of environmental efforts. Green accounting is the main element being investigated for its possible effects on financial performance, acting as the independent variable. It stands for the procedures and guidelines that businesses use to match the objectives of sustainability with their accounting systems. The outputs or indicators that show a company's operational effectiveness and financial health are referred to as financial performance, which is the dependent variable. Among other possible measures, Return on Assets (ROA) is explicitly used in this study to measure financial success. ROA is a crucial indicator for evaluating the effects of green accounting practices since it sheds light on how well a business uses its resources to create profit. The adoption and application of green accounting procedures have an impact on the dependent variable; the study's goal is to ascertain the kind and degree of this influence.

RESEARCH FRAMEWORK

The research framework posits that the implementation of green accounting practices (independent variable) has a direct impact on financial performance (dependent variable). The hypothesis is that companies incorporating green accounting practices will exhibit improved financial performance, as reflected in metrics such as ROA. This framework allows for an exploration of how environmental accounting initiatives contribute to financial outcomes and provides insights into the benefits of integrating sustainability into financial management.

FINDINGS/RESULTS

Based on the results Financial performance has a positive effect on company profitability (ROA and ROE), meaning that the higher the PROPER rating, the greater the company's profitability. Companies are advised to be more concerned about the environment because their business processes must rely on natural resources that are detrimental to the environment and the people who experience it. Businesses must create a green background to have a more significant positive impact on the environment or industry. According to the findings of (Ezeagba, 2017)the implementation of green accounting has an impact on the company's profitability, and higher profitability can increase the company's value. Another research (Andries, 2019) suggests that innovation related to environmental performance is developed as a form of response to public demand even the size of the company. This can expand the relationship between the work environment and its level of profitability. The findings suggest that financial performance, namely return on assets (ROA) and return on equity (ROE),

has a significant value in mediating the relationship between GI and FV. This illustrates that investors in the ASEAN region's capital market are more interested in the economic motivation for companies implementing GI. Other findings also provide evidence that ROA and ROE have positive and significant effects on FV. This indicates that the profitability resulting from a firm's ability to continuously innovate has a positive impact on the creation of value by manufacturing companies in the ASEAN region. (Nur Asni, 2021) Our research, which involved a thorough analysis of numerous academic publications and studies, shows that green accounting plays a crucial role in promoting sustainable growth as well as financial performance. The study shows that green accounting promotes sustainable development, especially by coordinating environmental sustainability and economic growth. Companies need this alignment to remain viable over the long run because it allows them to meet present demands while preserving resources for future generations. Furthermore, the study emphasizes how green accounting improves financial performance, as seen by increases in important financial metrics like return on assets (ROA). This implies that businesses using green accounting techniques improve their profitability and financial stability in addition to helping to accomplish sustainability goals. These businesses are better positioned for long-term viability, striking a balance between short-term financial success and long-term sustainability, by incorporating environmental issues into their financial plans. These results highlight the significance of green accounting in promoting a sustainable and financially sound corporate environment, and they are backed by a large body of literature.

CONCLUSION

This study examines how green accounting affects financial performance, paying particular attention to Return on Assets (ROA), which is used as a gauge of success in the financial sector. The findings show that there is a positive correlation between financial performance and green accounting practices, indicating that businesses that implement environmentally conscious accounting methods typically see improved financial results.The findings have significant practical implications, suggesting that businesses can enhance their financial performance by integrating green accounting principles into their operations. This alignment not only supports sustainable development goals but also offers a competitive advantage in the market. From a theoretical perspective, this research contributes to the understanding of how green accounting can drive financial success, aligning with and expanding upon existing literature in the field. The study does, however, note several limitations, such as the sample size and data breadth, which may have an impact on how broadly the findings may be applied. Larger and more varied sample sizes should be taken into account in future studies in order to confirm these results and investigate the effects of green accounting in various sectors and geographical areas. In conclusion, this research highlights the importance of green accounting as a tool for achieving both financial and environmental objectives. As businesses increasingly recognize the value of sustainability, integrating green accounting practices will be crucial for long-term success and resilience in a competitive market.

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