
The Role of Green Accounting in Enhancing Corporate Value and Sustainable Economic Performance

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ABSTRACT

Growing environmental pressure has made conventional accounting insufficient, because it often hides environmental costs and leaves managers and investors with an incomplete view of firm performance. This study examines the role of green accounting in enhancing corporate value and sustainable economic performance. Using a qualitative integrative literature review, the study synthesizes theoretical and empirical evidence from reputable academic databases and regulatory publications, analyzed through thematic synthesis. The findings show that green accounting improves cost visibility and resource efficiency, that credible disclosure reduces information asymmetry and raises corporate value, and that long-term economic performance emerges through efficiency, innovation, and risk reduction. These benefits are conditional on disclosure credibility, governance, and institutional pressure, since symbolic reporting may weaken the effect. The study concludes that green accounting is most effective when integrated into internal decision making rather than treated as disclosure alone, and it also offers implications for managers, investors, and Indonesian regulators.

Keywords: *green accounting; corporate value; sustainable economic performance; environmental disclosure; literature review*

INTRODUCTION

The past three decades have reshaped how businesses are expected to create value. Climate change, resource depletion, biodiversity loss, and pollution are no longer treated as distant externalities; they have become material business risks that influence costs, regulation, reputation, and access to capital (Hart, 1995; Bebbington & Larrinaga, 2014). The adoption of the 2030 Agenda for Sustainable Development by the United Nations (2015) further strengthened the expectation that firms contribute to economic growth without compromising environmental integrity and social wellbeing. Within this context, the conventional view that a company's only objective is to maximize short-term profit has been increasingly challenged by the triple bottom line perspective, which asks firms to account for economic, environmental, and social performance simultaneously (Elkington, 1997).

Traditional financial accounting was not designed to answer these demands. Its core framework records transactions that can be measured in monetary terms and attributed to the reporting entity, so environmental costs such as waste treatment, emissions, and resource degradation are often absorbed into general overhead or ignored altogether (Gray, Owen, & Adams, 1996; Hopwood, 2009). As a result, managers and investors receive an incomplete picture of the true cost of production and of the long-term risks embedded in a firm's operations. Green accounting, also referred to as environmental accounting, emerged to close this gap. It integrates the identification, measurement, allocation, and disclosure of environmental costs and benefits into the accounting system, thereby making the ecological consequences of business activity visible in decision making (Schaltegger & Burritt, 2000; International Federation of Accountants [IFAC], 2005).

A growing body of literature suggests that the relevance of green accounting extends well beyond compliance. From the perspective of the natural-resource-based view, capabilities such as pollution prevention, product stewardship, and sustainable development can become sources of competitive advantage that are difficult for rivals to imitate (Hart, 1995; Wernerfelt, 1984). Porter and van der Linde (1995) go further by arguing that well-designed environmental performance can stimulate innovation that partly or fully offsets the cost of compliance. Green accounting provides the information infrastructure that makes such strategies manageable: by tracing environmental costs to specific products and processes, it enables firms to identify waste, improve resource efficiency, and prioritize eco-efficient investments (Burritt & Schaltegger, 2010).

Green accounting is also closely connected to corporate value, which reflects how the market assesses a firm's present performance and future prospects and is commonly proxied by indicators such as Tobin's Q or the price-to-book ratio (Tobin, 1969). Several theoretical lenses explain why environmental accounting and disclosure may raise this value. Signaling theory holds that firms with superior environmental practices voluntarily disclose credible information to distinguish themselves from weaker performers and to reduce information asymmetry (Spence, 1973). Legitimacy theory suggests that companies disclose environmental information to demonstrate that their operations are consistent with societal norms, which protects their license to operate (Suchman, 1995). Stakeholder theory adds that the interests of investors, regulators, communities, and consumers must be balanced, because their collective reactions determine the firm's long-term survival (Freeman, 1984). Taken together, these perspectives imply that transparent green accounting practices can lower perceived risk, strengthen reputation, and ultimately increase firm value.

Empirical studies provide supporting yet nuanced evidence. Using U.S. data, Al-Tuwaijri, Christensen, and Hughes (2004) showed that environmental disclosure, environmental performance, and economic performance are interrelated, with good environmental performance associated with better economic outcomes. Dhaliwal, Li, Tsang, and Yang (2011) found that firms initiating voluntary sustainability disclosure enjoyed a lower cost of equity capital, which is consistent with improved investor confidence. Konar and Cohen (2001) reported that poor environmental performance, measured by emissions and legal disputes, was associated with significantly lower intangible asset value. At a broader level, Orlitzky, Schmidt, and Rynes (2003) in a meta-analysis and Friede, Busch, and Bassen (2015) in a review of more than 2,000 studies concluded that the majority of research finds a non-negative, and often positive, relationship between sustainability-related performance and financial performance. Eccles, Ioannou, and Serafeim (2014) likewise documented that firms with strong sustainability policies outperformed their counterparts in both stock market and accounting measures over the long term.

Nevertheless, the evidence is not uniform. Clarkson, Li, Richardson, and Vasvari (2008) cautioned that disclosure does not always reflect actual environmental performance, which raises the risk of symbolic or “greenwashing” behavior. Environmental investments may also impose short-term costs that depress profitability before benefits are realized, and agency problems may lead managers to adopt green initiatives for personal reputation rather than shareholder value (Jensen & Meckling, 1976). These mixed findings indicate that the contribution of green accounting depends on the quality of implementation, the credibility of reported information, and the institutional setting in which a firm operates. Consequently, the question is not merely whether green accounting matters, but under what conditions it improves corporate value and supports sustainable economic performance.

This question is particularly pertinent in emerging economies such as Indonesia, where natural-resource-intensive industries contribute significantly to the economy while also generating substantial environmental pressure. The Indonesian government has strengthened the regulatory framework through Law No. 32 of 2009 on Environmental Protection and Management, Article 74 of Law No. 40 of 2007 on Limited Liability Companies, which obliges companies operating in natural-resource-related fields to carry out social and environmental responsibility, and Financial Services Authority Regulation No. 51/POJK.03/2017 on the implementation of sustainable finance, which requires financial institutions, issuers, and public companies to prepare sustainability reports. In addition, the PROPER program of the Ministry of Environment and Forestry publicly rates companies’ environmental compliance, creating reputational incentives for firms to manage and report their environmental performance. Despite these initiatives, practices remain uneven: many firms treat environmental costs as an administrative burden or a philanthropic activity rather than as an integral part of their accounting and strategic systems, and the quality of environmental disclosure varies widely across industries and firm sizes.

This uneven adoption creates a practical and academic gap. Practically, managers still lack clear evidence on whether investing in green accounting systems yields tangible returns in the form of higher firm value, better efficiency, and more resilient long-term performance. Academically, prior studies tend to focus on either environmental disclosure or environmental performance, while fewer investigate green accounting as an integrated mechanism that links internal cost management, external reporting, corporate value, and sustainable economic performance, particularly in developing-country contexts. Findings also

differ across measurement approaches, sectors, and time periods, leaving the underlying mechanisms insufficiently resolved (Friede et al., 2015; Bebbington & Larrinaga, 2014).

Based on the foregoing discussion, this study examines the role of green accounting in enhancing corporate value and sustainable economic performance. By synthesizing theoretical foundations and empirical evidence, the research seeks to clarify how green accounting contributes to value creation, under what conditions its benefits are most pronounced, and what implications arise for managers, investors, and regulators. The study is expected to contribute theoretically by integrating signaling, legitimacy, stakeholder, and resource-based perspectives into a coherent explanation of green accounting outcomes, and practically by providing guidance for firms seeking to align environmental stewardship with long-term financial success.

METHODS OF RESEARCH

This study employs a literature review design with a qualitative, integrative approach. A literature review is appropriate when the objective is to synthesize existing knowledge, evaluate the strength of prior evidence, and identify theoretical and empirical gaps rather than to test hypotheses with primary data (Snyder, 2019; Torraco, 2005). Because the relationship between green accounting, corporate value, and sustainable economic performance has been examined through diverse theories, measures, and institutional settings, an integrative review allows the study to combine conceptual and empirical contributions into a coherent explanation (Webster & Watson, 2002). To keep the process transparent and replicable, the review follows the logic of systematic review principles, which emphasize explicit search procedures, clear selection criteria, and documented decisions at each stage (Tranfield, Denyer, & Smart, 2003; Okoli, 2015).

The data consist of secondary sources collected through a structured search of reputable academic databases, namely Scopus, Web of Science, ScienceDirect, and Google Scholar, supplemented by official publications from standard-setting and regulatory bodies such as the International Federation of Accountants and the Indonesian Financial Services Authority. Searches combine keywords and Boolean operators, for example “green accounting” OR “environmental accounting” AND “firm value” OR “corporate value” OR “economic performance” OR “sustainability performance.” Following a hermeneutic logic, the search is iterative: the reference lists of key articles are examined to trace seminal works and to refine the search terms (Boell & Cecez-Kecmanovic, 2014). Sources are included if they are peer-reviewed journal articles, books, or authoritative reports; address green or environmental accounting, disclosure, or performance in relation to firm value or economic outcomes; and are written in English or Indonesian. Sources are excluded if they lack a clear methodology, are not accessible in full text, or only discuss the topic tangentially. Studies published in recent years are prioritized to reflect current developments, while foundational works are retained for theoretical grounding.

The selection and analysis proceed in several stages. Records identified from the databases are screened by title and abstract, then assessed in full text against the inclusion and exclusion criteria, and the process is documented in a flow of identification, screening, eligibility, and inclusion consistent with reporting guidance for reviews (Page et al., 2021). Relevant information from each selected study, including author, year, context, theory, variables, methods, and main findings, is extracted into a matrix to allow systematic comparison. The extracted material is then analyzed using thematic synthesis, in which recurring patterns are coded and organized into themes such as theoretical foundations, mechanisms linking green

accounting to corporate value, and contextual conditions that strengthen or weaken the relationship (Braun & Clarke, 2006). To enhance credibility, findings are compared across multiple sources, conflicting evidence is explicitly discussed, and conclusions are drawn only from sources that meet the quality criteria.

RESULT AND DISCUSSION

Green Accounting as an Information and Cost-Management Mechanism

The literature consistently positions green accounting first as an internal information system and only secondarily as a reporting tool. By identifying and allocating environmental costs, such as waste disposal, energy use, emission control, and remediation, to the products and processes that cause them, green accounting corrects the distortion created when these costs are hidden in general overhead (Schaltegger & Burritt, 2000; IFAC, 2005). This finding directly answers the problem raised in the background: conventional accounting leaves managers with an incomplete view of true production costs, whereas green accounting gives them the evidence needed to redesign processes, reduce material and energy waste, and prioritize cleaner investments (Burritt & Schaltegger, 2010). In this sense, green accounting operationalizes the capabilities emphasized by the natural-resource-based view, namely pollution prevention and product stewardship, by turning them into measurable and manageable activities (Hart, 1995).

Green Accounting and Corporate Value

The second theme shows that the relationship between green accounting and corporate value is mostly positive, although not uniform. Evidence from the capital market indicates that firms that disclose sustainability information benefit from a lower cost of equity capital (Dhaliwal et al., 2011), and that poor environmental performance is associated with lower market valuation of intangible assets (Konar & Cohen, 2001). Studies linking disclosure, environmental performance, and financial outcomes similarly report that firms with better environmental performance tend to achieve better economic results (Al-Tuwaijri, Christensen, & Hughes, 2004). At the aggregate level, large-scale syntheses conclude that the majority of studies find a non-negative relationship between sustainability-related performance and financial performance (Orlitzky, Schmidt, & Rynes, 2003; Friede, Busch, & Bassen, 2015), while Lins, Servaes, and Tamayo (2017) found that firms with stronger sustainability commitments earned higher stock returns during the 2008–2009 financial crisis, which suggests that such commitments also act as a buffer in times of uncertainty.

These findings are consistent with the theoretical perspectives presented earlier. Under signaling theory, credible environmental information distinguishes better-performing firms and reduces information asymmetry between managers and investors (Spence, 1973). Under legitimacy theory, disclosure helps firms demonstrate alignment with societal expectations and thereby protect their license to operate (Suchman, 1995), and stakeholder theory explains why meeting the expectations of investors, regulators, and communities supports long-term survival (Freeman, 1984). The synthesis therefore suggests that green accounting increases corporate value through three complementary channels: lower perceived risk, stronger reputation, and better resource allocation.

Contribution to Sustainable Economic Performance

The third theme concerns performance over the long term. The reviewed studies indicate that green accounting supports sustainable economic performance mainly through efficiency gains, innovation, and risk reduction. Porter and van der Linde (1995) argue that well-designed environmental management can

stimulate innovation that partly or fully offsets compliance costs, and the systematic overview by Ambec and Lanoie (2008) shows that better environmental performance can raise revenues and reduce costs through several channels, including improved market access, lower input and energy costs, and reduced regulatory and liability risk. Eccles, Ioannou, and Serafeim (2014) add that firms with strong sustainability policies outperform others in the long run in both market and accounting terms. Seen through the triple bottom line framework (Elkington, 1997), these results indicate that economic, environmental, and social objectives are not necessarily in conflict; green accounting provides the measurement basis that makes their integration visible and manageable (Bebbington & Larrinaga, 2014).

An important nuance is timing. Environmental investments and accounting system development impose upfront costs, while benefits such as reputation, lower financing costs, and efficiency often accrue gradually. Short-term studies may therefore understate the contribution of green accounting, which partly explains why the findings differ across time periods and measurement approaches, as noted in the background of this study.

Conditions That Determine the Outcome

The fourth theme explains the mixed evidence. The benefits of green accounting depend heavily on the credibility of the information produced. Clarkson, Li, Richardson, and Vasvari (2008) show that disclosure does not always reflect actual environmental performance, and Cho and Patten (2007) found that firms with weaker environmental performance may disclose more in order to build legitimacy. Lyon and Maxwell (2011) model such “greenwashing” as a strategic response that depends on the likelihood of external scrutiny. When disclosure is symbolic, it can fail to reduce information asymmetry and may even damage trust once discovered. Agency problems add another dimension, because managers may pursue green initiatives for personal reputation rather than for shareholder value (Jensen & Meckling, 1976). Consequently, green accounting enhances corporate value most clearly when it is integrated into internal decision making, measured consistently, and supported by credible governance and verification.

Institutional pressure also shapes outcomes. Research on sustainability reporting shows that firm characteristics and institutional environments jointly determine the extent and quality of reporting (Hahn & Kühnen, 2013), and institutional theory explains how coercive, normative, and mimetic pressures lead firms to adopt similar practices (DiMaggio & Powell, 1983). In Indonesia, such pressure is created by Law No. 32 of 2009 on Environmental Protection and Management, Article 74 of Law No. 40 of 2007 on Limited Liability Companies, and Financial Services Authority Regulation No. 51/POJK.03/2017 on sustainable finance, together with the public environmental rating of the PROPER program. These instruments push firms toward measurement and reporting, but regulation alone risks producing compliance-driven, symbolic practices unless firms also use green accounting as a management tool. This explains the uneven adoption in emerging economies that was identified as a practical gap in the background.

An Integrated Framework of Green Accounting Outcomes

The four themes are not independent. Read together, they describe a sequence in which internal accounting practices generate real performance, and credible disclosure then converts that performance into market and stakeholder responses. The sequence can be summarized in four linked steps:

1. **Measurement.** Environmental costs are identified and allocated to products and processes, which makes waste and inefficiency visible (Schaltegger & Burritt, 2000; IFAC, 2005).

2. **Improvement.** Managers use this information to cut material and energy use, redesign processes, and prioritize cleaner investments, which raises actual environmental and operational performance (Hart, 1995; Porter & van der Linde, 1995).
3. **Communication.** The resulting performance is reported through credible disclosure, which reduces information asymmetry and supports legitimacy (Spence, 1973; Suchman, 1995).
4. **Response.** Investors, regulators, and other stakeholders react by lowering required returns and extending support, which raises corporate value and strengthens long-term performance (Dhaliwal et al., 2011; Freeman, 1984; Eccles et al., 2014).

The order of these steps matters. Disclosure without prior measurement and improvement is symbolic, whereas improvement without disclosure leaves the market unaware of the firm's quality, so the value effect is delayed or lost. This logic also reconciles the mixed evidence discussed above: studies that capture firms completing all four steps tend to report positive outcomes, while studies dominated by firms that stop at the third step tend to report weak or insignificant ones (Clarkson et al., 2008; Lyon & Maxwell, 2011). From this synthesis, three propositions are derived for future empirical testing.

- **Proposition 1.** Firms that use green accounting information in internal decisions achieve better environmental and operational performance than firms that use it only for external reporting.
- **Proposition 2.** The positive effect of green accounting on corporate value is stronger when disclosure is credible, that is, consistent with actual performance and supported by verification.
- **Proposition 3.** The effect on sustainable economic performance emerges over a longer horizon than the effect on corporate value, because efficiency and innovation gains accumulate gradually.

Variation Across Industries, Firm Characteristics, and Time

The reviewed literature also shows that the strength of the relationship is not constant across settings. Industry sensitivity is a recurring factor: firms in environmentally intensive sectors face greater regulatory exposure, more public scrutiny, and larger potential cost savings, so both the benefits of good environmental management and the penalties of poor management are amplified (Konar & Cohen, 2001; Ambec & Lanoie, 2008). Firm characteristics matter as well. The review by Hahn and Kühnen (2013) indicates that firm size and industry are among the most frequently identified determinants of sustainability reporting, which implies that larger and more visible firms are generally better positioned to build and use green accounting systems, while smaller firms may lack the resources and expertise to do so.

The time dimension has already been noted in relation to investment costs, and it appears in the evidence on market conditions as well. Eccles et al. (2014) observe the advantage of sustainability-oriented firms over a long horizon, whereas Lins, Servaes, and Tamayo (2017) show that the same orientation matters particularly in periods of crisis, when trust in firms becomes scarce. Large-scale syntheses further report that the positive relationship between sustainability-related performance and financial performance is generally stable over time and appears more pronounced outside North America, including in emerging markets (Friede et al., 2015). This is relevant for the present study because it suggests that the value of green accounting may be at least as great in developing economies, where information asymmetry is often larger and institutional safeguards are still evolving.

Relevance for the Indonesian Context

Applying the integrated framework to Indonesia clarifies where the main barriers lie. The regulatory foundation is already substantial: Law No. 32 of 2009 on Environmental Protection and Management establishes environmental obligations, Article 74 of Law No. 40 of 2007 on Limited Liability Companies requires social and environmental responsibility in natural-resource-related business, Financial Services Authority Regulation No. 51/POJK.03/2017 mandates sustainability reporting for specified financial institutions, issuers, and public companies, and the PROPER program publicly rates environmental compliance. In terms of the framework, these instruments mainly strengthen the third and fourth steps, communication and stakeholder response, by creating reporting obligations and reputational consequences. Institutional theory predicts that such pressures will spread similar practices across firms (DiMaggio & Powell, 1983), but it also warns that conformity can be superficial.

The first and second steps, measurement and improvement, are less directly regulated and therefore represent the main gap. If firms report because they must but do not integrate environmental costs into their management accounting, the result is the symbolic compliance described earlier, in which disclosure is not backed by performance (Cho & Patten, 2007; Clarkson et al., 2008). Hopwood (2009) argues that accounting shapes what organizations are able to see and act upon, which supports the view that the absence of environmental cost accounts leaves environmental issues marginal in decision making. Practical steps that follow from this reading include adopting the environmental management accounting guidance of IFAC (2005) to separate environmental costs from general overhead, linking internal cost information to the sustainability reports required by regulators, and subjecting disclosures to verification so that they are credible to investors.

In sum, the synthesis answers the research problem in a conditional way. Green accounting enhances corporate value and sustainable economic performance when it functions as an integrated system of measurement, improvement, credible communication, and stakeholder response, and it is far less effective when reduced to disclosure alone. For Indonesian firms, the strategic challenge is therefore less about whether to report and more about whether reporting is built on a genuine accounting system that changes managerial decisions.

Implications and Limitations

The synthesis yields three implications. For managers, green accounting should be treated as a strategic information system that links environmental costs to product and process decisions rather than as an administrative or philanthropic activity. For investors, the credibility of environmental information, not only its volume, should guide valuation decisions. For regulators, combining mandatory reporting with verification and public rating mechanisms can reduce symbolic compliance. Theoretically, the results support an integrated explanation in which resource-based, signaling, legitimacy, and stakeholder perspectives operate together: internal capabilities generate real performance, and credible disclosure communicates it to the market.

The findings should be interpreted with caution. As a literature review, this study relies on secondary evidence whose measures, samples, and contexts vary, and published research may favor significant results. In addition, most of the foundational evidence originates from developed-country settings, so its transferability to Indonesia requires further empirical testing. Future research could examine the moderating

roles of disclosure quality, governance, and industry sensitivity using primary or panel data from Indonesian firms.

CONCLUSION

This study concludes that green accounting can enhance corporate value and sustainable economic performance, but only when it operates as an integrated accounting system rather than as a reporting obligation. The literature synthesis shows that the relationship is generally positive, yet its strength depends on how green accounting is implemented, how credible the resulting information is, and the institutional context in which the firm operates.

Four main findings support this conclusion. First, green accounting functions as an information and cost-management mechanism that makes environmental costs visible and traceable, allowing managers to reduce waste, improve resource efficiency, and prioritize cleaner investments. Second, credible environmental disclosure lowers information asymmetry, strengthens legitimacy, and reduces perceived risk, which tends to raise corporate value. Third, the contribution to sustainable economic performance arises through efficiency, innovation, and risk reduction, and it typically emerges over a longer horizon than the effect on corporate value. Fourth, the benefits are conditional: symbolic disclosure, weak governance, and the absence of verification can weaken or even reverse the effect, which explains the mixed evidence found in prior studies.

Several implications follow. Managers are advised to integrate environmental cost information into management accounting and decision making instead of treating it as an administrative or philanthropic activity. Investors should evaluate the credibility of environmental information, not only its volume. Regulators in Indonesia can complement existing instruments, such as environmental and sustainable finance regulations and the PROPER rating, with stronger encouragement of internal measurement systems and independent verification, so that reporting reflects genuine performance.

The conclusions are limited by the nature of a literature review, which relies on secondary evidence with varying measures, samples, and contexts, and by the fact that much of the foundational evidence comes from developed economies. Future research should test the propositions developed in this study using primary or panel data from Indonesian firms, examine the moderating roles of disclosure quality, governance, and industry sensitivity, and compare short-term and long-term effects to capture the gradual nature of sustainable economic performance.

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