

Green Accounting Practices and Their Influence on Corporate Valuation

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Abstract

The growing interest in the long-term environmentally sustainable nature has led to significant alterations in accounting operations of the corporations, the green accounting became one of the primordial tools to estimate the environmental expenses and profits and present them. In this research paper, the green practices of accounting and how they drive the corporate valuation results have been discussed especially whether the introduction of environmental cost, carbon accounting and sustainability reporting has an influence on a corporate valuation and the various types of investors. In this paper the author will analyze the operations of green accounting, in order to instill greater transparency, and measurement of risk and consistency of corporate strategies with regard to sustainable development goals. The proposed paper discusses the reliance on the correlation between the environmental accounting disclosures and these essential indicators of financial values as market capitalization, investor confidence, and return on assets in terms of a conceptual and empirical framework. The findings have reported that corporations are valuing more because of high credibility, less regulatory and environmental risks and high levels of stakeholders confidence due to wholesome green accounting actions. However, it is also observed that measurement complexity and lack of standardized reporting frameworks together with the threats of greenwashing are also a troublesome aspect of the given study. In this paper, it has been identified that appropriate practice of green accounting has a positive effect on corporate valuation and a long term sustainability level that straddles in a harmonized standard, regulatory backing and strategic incorporation of environmental accounting in the financial decision making process should be put into consideration.

Keywords: Green Accounting; Environmental Accounting; Corporate Valuation; Sustainability Reporting; Carbon Accounting; Stakeholder Trust; Environmental Costs; Financial Performance

Introduction:

The high focus on environmental sustainability that has transpired in the global front over the last few years has had profound influence on the business practices that corporate entities have

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boosted to recognize the financial, ethical and strategic importance of addressing environmental concerns to their business models. The traditional accounting systems used predominantly focus on financial systems hence do not cover the costs incurred in respect of the environment, social impacts and resource sustainability, which in the long run, could immensely impact on the long-run corporate value and image among the stakeholders. Green accounting or environmental accounting (Day) also called green accounting, environmental accounting, or sustainability accounting is a significant process that is now quite necessary in reporting of corporate financial statements to reflect environmental costs. Not only will this gauge the costs of the environmental operation and activities, but it will also enhance transparency, accountability, and alignment of the corporate strategies with the sustainability goals of the world like those of United Nations Sustainable development Goals (SDGs). Green accounting is efficient in considering the costs, liabilities and investments of the environment and presenting it in a systematic manner to the stakeholders such as investors, regulators, customers and employees in a better perspective as the ecological footprint of the firm, its risks, and its sustainability. It means that application of green accounting practices is not just a positive contribution to the attempt to perform environmental stewardship but also important transformation in the corporate valuation since the investors will be increasingly aware of considering the environmental performance along with traditional financial indicators in the process of making investment decisions.

The growth of regulatory pressures, awareness of society about climate change and demand of social corporate responsibility (CSR) in the market have accelerated the introduction of green accounting practices. Governments and regulatory agencies all over the world are setting policies and reporting mechanisms that either demand or encourage publication of environmental performance including carbon emissions, energy consumption and waste disposal. A few of the benefits that the organizations can achieve by actively applying the green accounting practices that are cost saving because of the resource efficiency, corporate reputation, better management of risks, and accessibility to green financing sources. The studies also show that the two closely associated benefits of good environmental accounting performance amongst the firms are most likely to have a higher market value, lower capital costs coupled with a greater level of trust within the stakeholders as the significance of environmental responsibility as source of financial sustainability and an advantage in competition is fast growing. Green accounting is therefore a compromise between the financial reporting and environmental performance since there is an empirical relationship between the

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two which markets would be in a position to put a superior value in companies that commit to conduct business with sustainable approach.

Green accounting practices though gaining importance have some problems with its implementation. The standardization is a potent issue because no universal framework of the measurement and reporting of environmental costs is applied, generally. The national variation in rules, practice and measurement may result in inconsistencies and limit comparison across firms. In addition to this the firms can also be unable to precisely quantify the indirect environmental cost such as the capabilities to pollute the environment over the long-term or the destruction of resources and otherwise assigning the costs to the conventional financial statements. The risk in greenwashing, meaning exaggerating or misreporting green activities of the firms, further contributes to the credibility of the information made in green accounting. Such challenges need curbing through the regulation guidance and internal practices adoption and the more precise and clear-cut capturing of direct and indirect environmental costs. The technological change, comprising of data analytics, environmental management system, and integrated reporting tools, is effectively and efficiently facilitating the adoption of green accounting practices by the firms.

The effect of green accounting on the corporate valuation is complicated. The reporting environmental performance indicators are very effective in determining the long-term sustainability of its operations as well as the tendency of its investors to the exposure of environmental risk of firms. Good environmental management makes the companies to be considered as less risky and thus rated by the capital markets and their value is increased. Besides, green accounting facilitates strategic decision making in corporations by introducing such elements as cost minimization or resource maximization and investment sustainability. The reinventing of the investors behavior is also depicted by the relationship between green accounting and corporate valuation where more institutional investors and individuals are now considering the environment, social and governance (ESG) considerations as part of their investment policies. This tendency indicates that environmental accounting, besides, being a compliance exercise, is a strategic tool that presents feasible implications to the worth of the firm, risk management, and trust of the stakeholders.

In conclusion, the green accounting practices can be considered as a significant recent advancement in the field of corporate reporting that integrates the environmental issues with

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the financial reporting to provide a more striking analysis of the organizational value. This will result in the process and corporate valuation being sustainable through increased transparency, increased stakeholder confidence and informed decision making. This research paper aims at examining the use of green approach in accounting and the impact on the valuation of corporate position based on the advantages, limitations and strategic concerns regarding the implementation of environmental accounting in the modern financial reporting systems. The harmonized standards as well as regulatory support and technological integration has been found in the paper to be essential in determining effectiveness and reliability of green accounting practices and this has eventually turned out to be the rising relevance of green accounting practices in the world today which is taking much concern towards business sustainability and responsible practices.

Literature Review:

Green accounting has been one of the most significant tools of incorporating the environmental and sustainability concerns in corporate financial reporting. According to Lako (2018), a conceptual model of green accounting provides the principles upon which the environmental costs and benefits may be materialized systematically and, therefore, improves the transparency and the completeness of corporate financial reporting. The organizations can also understand the true cost of the doing the business and be able to adopt sustainable business activities by absorbing the environmental costs.

It also has a study conducted on the relations existing between social corporate responsibility (CSR) and financial performance that have led to the interconnection of practices of green accounting and firm value. Liu, Shao, De Sisto and Li (2020) suggested methods of addressing the endogeneity issue when evaluating the connection between CSR and financial performance as well as the importance of robust empirical model in making causal inferences. Lusiana et al. (2020) literature review within the same law related benefits of green accounting and CSR disclosures with financial performance and the value of companies and concluded that companies that report on environmental and social Measures actively tend to have high marketvalues and stakeholder trust.

The adoption of green accounting practices by the less developed economies can also be provided further by the empirical research in these economies. Maama and Appiah (2019) wrote about the experience of older and newer companies working in the emerging markets

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and that, green accounting does not only facilitate the operational adherence to the corresponding regulations, but also enhances strategic decision-making and resource management. Their qualitative analysis revealed that the companies which had developed environmental reporting structure were better placed to both acquire competitive advantage and the trust of their investors. Mei, Ge, Huang, and Chen (2019) also examined the prospects of enhancing the appropriation potential of firm innovative knowledge through CSR activities like green accounting and the relationship between sustainability activities and value creation over a long period of time.

The impact of in disclosure of environmental information and valuation in the European contexts have been mentioned. According to Mittelbach-Hoermanseder, Hummel, and Rammerstorfer (2020), the information included in the CSR disclosures is significant and has an influence on the perception of the investors and their decision to invest or not. Pedron, Macagnan, Simon, and Vancin (2020), in a research concerning the effect of environmental disclosures on returns and market value, have discovered that those companies, which report their environmental performance in a detailed and authentic way, could identify positive returns to share performance and valuation in the market. The mediating role of corporate reputation and the moderating role of CEO integrity in the relationship between CSR disclosure and firm performance played by the leaders and governance displayed by the corporations facilitated the value of sustainability reporting to be maximized by them (Pham and Tran, 2020).

The enterprise risk management (ERM) and CSR also plays a strategic role in protecting the worth of a firm which is also interesting to note. Phan et al. (2020) found that sustainability and CSR implementation along with ERM activities can support the resilience of the firms and lead to the campanology of the market value. The practices of CSR and green accounting have also turned out to safeguard the corporate value even in the period of crisis such as COVID-19 pandemic. Evidence of this was also deadened in Qiu et al. (2020), who discovered that firms that are actively engaged in the practice of CSR had more ability to interfere with both the loss of stakeholder confidence as well as lessened the decrease of the loss in values as the pandemic commenced, indicating the risk management profit of integrating environmental and social issues into corporate strategy.

Finally, studies within the banking sector, such as Ramzan, Amin, and Abbas (2019), determine their beneficial effect of CSR initiative, such as environmental accounting, on financial

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performance, stability, and inclusion and display the additional existence of the green accounting practices in other sectors. A combination of all these studies makes it possible to conclude that, along with appropriate CSR policies, green accounting can also lead to improved transparency, improved decision-making, and positive influence on the corporate valuation. Nevertheless even the issue of complexity of measurements, the issue of standardizations, and even the acceptance of greenwashing are still considered to be critical to the absolute adoption of the green accounting that necessitates well-built structures, regulatory systems, and standardized reporting.

Lastly, it is highlighted in the literature that the green accounting practices are the inseparable component of the modern corporate financial management that has been predominantly presented as the source of environmental accountability without exception generating the actual advantage in the form of the corporate valuation, reduction of risks, and confidence of the stakeholders. Organisations that have managed to utilize effective models of green accounting and CSR programs are also likely to achieve green financial performances, giving evidence to the strategic relevance of the practices on the basis of business-related scenarios in the contemporary society.

Objectives of the Study:

1. To examine the adoption of green accounting practices in contemporary organizations.
2. To analyze the influence of green accounting on corporate valuation.
3. To evaluate the relationship between environmental disclosures and investor perception.

Hypothesis (H₁): The adoption of green accounting practices has a significant positive impact on corporate valuation in contemporary organizations.

Research Methodology:

The discussed study employs the quantitative research approach to the change in question, which is the adoption of Green accounting and its impact on corporate valuation. The design of the research will be descriptive and correlational and will aim at testing the relationship between accrual practices of environmental accounting and firm value. The structured questionnaire is applied to collect data collected in the form of distributing a set questionnaire to finance managers, accountants, and sustainability officers working in various industries

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offering the response to the representatives of the organization that has adopted the practice of green accounting. The questionnaire will be used to determine the extent to which it has adopted green accounting-environmental cost reporting, carbon accounting and sustainability disclosure and the perceived effect on the corporate valuation indicators (market capitalization, return on assets and investor confidence). The data received are discussed using statistical software SPSS like the descriptive statistics to generalize the adoption rates, Pearson correlation coefficient and regression analysis to examine the degree and direction in which the variables exert their effect on corporate valuation. The questionnaire is also pilot tested and a check on the homoscedasticity, normality, and linearity of the data is also carried out to enable the research determine the reliability and validity of the study. This is a method of providing an empirical and systematic measure of how the practice of the green accounting influences the valuation of the corporate and then the inference of the strategic and financial benefit of the practices.

Table 1: Descriptive Statistics of Green Accounting Practices and Corporate Valuation

Variables	N	Mean	Std. Deviation	Minimum	Maximum
Green Accounting Practices	60	4.12	0.58	2.5	5.0
Corporate Valuation Indicators	60	4.05	0.61	2.0	5.0

Analysis:

The descriptive statistics prove that the green accounting practice has been regarded relatively high as outlined by the mean of 4.12 and standard deviation of 0.58 of a 5-point Likert scale that implies that the majority of the surveyed organizations agree or strongly agree that the organizations are practicing the green accounting practice e.g. carbon accounting, environmental cost reporting, and sustainability disclosure. Similarly, the corporate valuation indicators mean is 4.05 and the standard deviation is 0.61, which means that the respondents consider reputable effects of such practices on the firm value, market capitalization and investor confidence. The standard deviations of both variables are also quite small which means that there is similarity in responses; this is one sign that the role of a green accounting to the strategic setting of a firm is similar among firms. Overall, the descriptive statistics provide first-hand evidence of the fact that the companies adopting the green accounting practices have higher chances of enjoying better corporate valuation resulting in the conclusion of positive correlations between environmental accounting practices and financial outcomes.

Table 2: Simple Linear Regression Analysis of Green Accounting Practices on Corporate Valuation

Model	Unstandardized Coefficients	Standardized Coefficients	t	Sig.
	B	Std. Error	Beta	
(Constant)	1.05	0.42	–	2.50
Green Accounting Practices	0.72	0.11	0.68	6.55

Model Summary

Model	R	R ²	Adjusted R ²	Std. Error of the Estimate
1	0.68	0.46	0.45	0.45

Analysis:

Simple linear regression results reveal the existence of a positive correlation between the positivity and statistical significance between the adoption of green accounting practice and corporate valuation. The coefficient is not standard ($B = 0.72$), which suggests that a 1-unit change in the banks of green-increasing practices in corporations increases corporate valuation by 0.72, all other things being constant. The strong implication of the practices of the green accounting on the corporate valuation is also supported by the standardized coefficient (Beta = 0.68). The t-value of 6.55 with the level of significance being 0.000 ($p < 0.05$) has some reflection that this relationship is very significant and thus the reinforcement of the alternative hypothesis (H1). The model summary reveals that the value of R² equals 0.46 implying that the utilization of green accounting practices can establish about 46 percent of corporate valuation and the adjusted R² of the model equals 0.45 implying that the model can explain corporate valuation very properly. Overall, all these findings indicate that there is a solid empirical evidence on the importance of the green accounting practice in facilitating the corporate valuation because it is pegged on the strategic value of green accounting in promoting the financial performance, confidence of stakeholders and long-term sustainability.

Overall Conclusion:

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The study reveals that the implementation of the green accounting practices has significant positive impact on the valuation of corporations in new day companies. Descriptive and is inferred that such firms that work productively in utilizing the metrics of environmental accounting i.e. carbon accounting, environmental cost reporting and sustainability disclosures, have better financial returns, market valuation and confidence of all their investors. The analysis of the regression demonstrates that the green practices of accounting would clarify a considerable portion of the variation in corporate valuation, this is the reason they are important in the present business environment. These conclusions contribute to the reality that considering the environmental concerns in the financial reporting is not only helping to create much more transparency and accountability, but it could also guarantee the long-term sustainability and competitiveness. The paper concurs that organized green accounting structures, in which regulatory frameworks alongside technological provisions ought to be solicited to promote the positive exploitation of monetary and non-financial advantages, are still present in spite of the difficulties in measurements, standardization issues and the possibility of greenwashing. Overall, this paper confirms that green accounting is an important system that can align corporate strategies and sustainability goals and add value to the firms.

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