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# Sustainable Innovation and Green Accounting in Improving Financial Performance: A Systematic Liteature Review

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**Abstract.** This study aims to evaluate the impact of green accounting and sustainable innovation on corporate financial performance through a systematic literature review approach. Green accounting is an accounting method that considers environmental costs in business decision-making, while sustainable innovation refers to the development of environmentally friendly products and processes that can provide companies with competitive advantages and cost efficiency. From the literature review, the implementation of green accounting and sustainable innovation is proven to be able to improve the financial performance of companies, such as through operational efficiency, cost reduction, and improved corporate image. However, challenges such as lack of clear regulations, high start-up costs, limited resources, as well as pressure to achieve short-term performance targets, remain. This study provides important insights into the relationship between green accounting, sustainable innovation and financial performance, and underlines the importance of a more comprehensive strategy and regulatory support to maximise the benefits. Future research is recommended to further explore the factors that influence the implementation of green accounting and sustainable innovation across different industry sectors.

**Keywords:** Sustainable Innovation , Green Innovation, Financial Performance.

## 1 Introduction

In the current global era, the issue of sustainability is increasingly becoming a major concern for various business organisations[1]. Company activities that are not environmentally friendly and unsustainable can adversely affect the company's financial performance, both in the short and long term [2]. Sustainability accounting and reporting has emerged as an important component of corporate transparency and accountability, as companies seek to integrate environmental, social, and governance considerations into their financial decision-making processes. In response to stakeholder demands for more sustainable business practices, companies began to adopt the concept of green accounting and sustainable innovation to improve financial performance[3].

Green accounting is an accounting concept that includes environmental costs as part of the company's accounting system. Green accounting allows companies to measure, analyse, and report the environmental impacts of their business operations, so that they can make better decisions to achieve sustainability. On the other hand,


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green innovation is defined as a new product, service, process, or technology that contributes to reducing environmental burdens. Green innovation can provide opportunities for companies to increase competitive advantage and other benefits, such as increased efficiency, decreased costs, and improved corporate image [4].

Several previous studies have examined the relationship between green accounting, sustainable innovation, and corporate financial performance. However, existing research results still show inconsistencies and debates. Some studies show a positive relationship between green accounting and sustainable innovation with financial performance, while other studies do not find consistent evidence of a significant impact [5]. In addition, most of the previous studies have focused on developed countries with strict environmental regulations, while the context of developing countries, which have different environmental regulations and challenges, has received less attention [6].

This research gap highlights the need for further research on how green accounting and sustainable innovation affect financial performance in various contexts, including developing countries with different environmental regulations. In addition, while most studies examine green accounting and green innovation separately, there is little research that examines the interaction between the two concepts in influencing firms' financial performance. Therefore, a systematic literature review is needed to examine in depth how green accounting and sustainable innovation can affect corporate financial performance, as well as the contextual factors that influence them.

## 2 Literature Review

### 2.1 Stakeholder Theory

Stakeholder theory is a management concept that states that the success of a company is not only measured by the achievement of shareholder profits, but also by the company's ability to pay attention to and balance the interests of all parties affected by its operations [7]. Stakeholder theory emphasises that companies must consider the interests of the various parties involved, including society, customers, and investors, in every decision taken.

The long-term success of a company depends on its ability to fulfil the interests of the various parties affected by its operations, including social and environmental impacts. By taking into account the social and environmental impacts of operations, companies can build mutually beneficial relationships that ultimately contribute to the sustainability of the company.

### 2.2 Legitimacy Theory

Legitimacy theory has been widely used to explain the motivation for voluntary environmental disclosure by organisations. Legitimacy theory states that companies must ensure that their operations are aligned with social norms and values in society. If the company's legitimacy is not in line with social values or social norms or societal norms, then the company's legitimacy will be threatened [1].

Legitimacy theory explains that social responsibility disclosures are made by companies in an effort to gain legitimacy from the community where the company is located and maximise its financial strength in the long term [8].

## 2.3 Sustainable Innovation

Sustainable innovation is a term that refers to the development of products, services or processes that aim to increase value for the company while reducing negative environmental impacts. This method can provide a significant competitive advantage as it not only produces environmentally friendly products, but also lowers costs and improves the company's reputation.

Sustainable innovation, on the other hand, is complex and involves combining performance metrics in the environmental, social and economic spheres. Companies implementing sustainable innovation must provide stakeholders with comprehensive information on how they create value, the strategies they implement, and the management of sustainability-related risks and opportunities. By providing this information, companies can thoroughly demonstrate what they have achieved in terms of sustainability, increase transparency, and improve relationships with stakeholders.

## 2.4 Green Accounting

Green accounting is an accounting approach that emphasises recording and reporting the environmental impacts of business activities. The main objective of green accounting is to provide more complete information on a company's environmental and social performance, as a complement to traditional financial statements. This approach involves measuring and reporting the environmental impacts of a company's operations, including costs associated with pollution, natural resource utilisation, and the social impacts of business activities. With the increasing awareness of environmental issues, the demand for transparency in corporate reporting from investors, governments, and society is also increasing.

Green accounting not only supports companies in understanding and managing environmental risks, but also plays an important role in improving the company's image in the eyes of the public. In addition, green accounting is a practice that integrates environmental costs in managerial decision making, thereby assisting companies in identifying and managing costs related to the environmental impacts of their operational activities [3].

## 2.5 Financial Peformance

Financial performance is the relative performance of a company in a similar industry characterised by the company's annual return. Financial performance is the result of many individual decisions made continuously by management. To assess the financial performance of a company, it is necessary to analyse the cumulative financial and economic impact of these decisions, and consider them using comparative measures. Financial performance can be measured through the level of profitability of the company [9].

## 3 Methodology

This research uses the Systematic Literature Review (SLR) method. Using this method, researchers will analyse the effect of green accounting and sustainable innovation on corporate financial performance.

The databases used to search for articles were Google Scholar, POP, Semantic. The search was conducted using the keywords ‘green accounting’, and ‘sustainable innovation’. The inclusion criteria used were peer-reviewed journal articles published in the last 5 years (2019-2023) focusing on the topics of green accounting, sustainable innovation, and corporate financial performance.

The research questions that will guide this study are as follows:

- RQ1 How can green accounting and sustainable innovation improve corporate financial performance?
- RQ2 What are the challenges identified in previous research related to the application of green accounting and sustainable innovation to improve corporate financial performance?

## 4 Result

RQ1 How can green accounting and sustainable innovation improve corporate financial performance?

Green accounting and sustainable innovation contribute to improving the financial performance of companies by increasing operational efficiency, reducing negative impacts on the environment, and creating a competitive advantage. This is achieved through more optimal use of resources, cost savings, and increased profitability through partnerships that support environmentally friendly practices[5].

Green accounting contributes to the improvement of corporate financial performance by identifying environmental costs, improving operational efficiency, and strengthening competitiveness through transparent reporting. This enables companies to make more informed decisions, reduce risks, and increase profitability [10].

Green accounting allows companies to better measure and manage environmental costs, so they can make more informed decisions to reduce environmental burdens and improve cost efficiency [11].

On the other hand, continuous innovation can contribute to improved financial performance through several mechanisms. Continuous innovation can improve operational efficiency and productivity, reduce costs, and increase customer satisfaction, which in turn can increase the Company's profitability [12].

RQ2 What are the challenges identified in previous research related to the application of green accounting and sustainable innovation to improve corporate financial performance?

The main challenges in implementing green accounting and sustainable innovation include lack of understanding, high initial investment costs, regulatory uncertainty, limited resources, and pressure for short-term performance [13].

No good regulation, low industry awareness, high costs for research and development, difficulty reporting environmental impacts, and difficulty changing market perspectives are some of the challenges that hinder the adoption of green accounting and sustainable innovation [14].

Measuring environmental impact, insufficient transparency in reporting, lack of management knowledge and awareness, and regulatory uncertainty are the main problems in implementing green accounting and sustainable innovation [8].

There are difficulties in accurately identifying, measuring, and reporting environmental costs and benefits. In addition, the lack of infrastructure support and resources needed to implement green accounting is also an obstacle for some companies [15].

## 5 Conclusion

Based on the results of various literature that has been reviewed, the application of green accounting and sustainable innovation has great potential to improve the financial performance of companies. Green accounting helps companies to better measure and manage environmental costs, improve operational efficiency, and support better decision-making related to sustainability. Meanwhile, sustainable innovation provides benefits by creating environmentally friendly products and processes that help lower costs, increase efficiency, and improve the company's image in the eyes of the public and stakeholders.

However, there are several challenges expressed in the literature related to the implementation of green accounting and sustainable innovation, such as the lack of clear regulations, high start-up costs, limited resources, and pressure to achieve short-term financial results. To gain maximum benefits, companies need to improve management's understanding of sustainability practices, adapt business strategies to applicable regulations, and build an infrastructure that supports the management of environmental impacts.

A limitation of this study was that it only included articles published within the last five years, which may have overlooked important studies that were older or not indexed in the database used. Therefore, the recommendation for future research is to conduct studies with a longer time span to gain insight into the long-term effects. Future research is also recommended to further explore the factors that influence the adoption of green accounting and sustainable innovation across different industry sectors.

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