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Beyond Compliance: The Role of ESG Reporting and Green Accounting in Enhancing Long-Term Value Creation

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This conceptual paper explores the strategic role of green accounting in strengthening ESG (Environmental, Social, and Governance) reporting among publicly listed companies in Indonesia. Although the Financial Services Authority (OJK) has made sustainability reporting mandatory, current disclosure practices remain largely compliance-driven and disconnected from internal decision-making processes. Drawing on recent academic literature, the paper argues that ESG reporting alone is insufficient to foster long-term value creation unless it is supported by systematic measurement of environmental impacts through green accounting. While ESG reporting provides an external disclosure platform, green accounting generates decision-relevant information by quantifying environmental costs and translating them into financial terms. The paper reviews existing ESG reporting regulations in Indonesia, describes key elements of green accounting, and clarifies the conceptual linkage between the two. It then proposes a conceptual framework that positions green accounting as an integral component of ESG disclosure, enabling companies to internalize environmental risks and adopt more proactive sustainability strategies. This framework consists of three pillars: environmental measurement and valuation, ESG information integration, and strategic decision-making. The paper concludes that more integrated ESG–green accounting practices have the potential to shift sustainability reporting beyond symbolic compliance and enhance long-term value creation in Indonesian listed companies.

Keywords: *ESG Reporting, Green Accounting & Sustainability Disclosure*

1. BACKGROUND

In recent years, the discourse on corporate sustainability has increasingly shifted from voluntary environmental disclosure to mandatory Environmental, Social, and Governance (ESG) reporting obligations. This is particularly relevant for public listed companies in Indonesia, where the Financial Services Authority (Otoritas Jasa Keuangan/OJK) has introduced a set of regulations requiring corporations to disclose sustainability reports as part of their annual reporting obligations. In line with these developments, an emerging question is no longer whether firms should report on their sustainability performance, but whether current reporting practices actually contribute to long-term value creation and strategic advantage. Although ESG disclosures aim to promote transparency, ethical behavior, and responsible investment, many listed companies still adopt a compliance-driven approach. As a result, sustainability reporting often remains fragmented, limited to narrative descriptions, and detached from core business accounting systems. Against this backdrop, the integration of green accounting into ESG reporting frameworks becomes an increasingly important strategic issue, especially in emerging markets such as Indonesia, where environmental impacts are significant and regulatory enforcement is often weak.

2. PROBLEM STATEMENT

While ESG reporting has become a mandatory requirement for listed firms in Indonesia, many companies tend to focus on fulfilling external disclosure requirements rather than using ESG information as a basis for internal decision-making (Muthiah & Anggoro, 2024; Windari & Dewi, 2024; Prihandono, 2023). This reality according to WIndari & Dewi (2024), Rahmawati & Ekawati (2024) and Gutiérrez-Ponce & Wibowo (2023) create a gap between reporting and performance. One critical limitation according to Zikrullah & Jide (2023) is the absence of coherent green accounting mechanisms capable of quantifying environmental impacts and translating them into financial terms. Consequently, ESG reporting becomes largely compliance-oriented, failing to facilitate long-term value creation (Sundarasen et al, 2024). This conceptual paper seeks to problematize the assumption that “reporting” alone naturally leads to sustainable performance. It argues that without green accounting integration, ESG disclosure may even lead to information overload, symbolic compliance, and reduced credibility in the eyes of stakeholders.

3. OBJECTIVE

This paper aims to provide a conceptual and a brief literature-based discussion on the strategic role of green accounting in strengthening ESG reporting for public listed companies in Indonesia. Specifically, the paper has three objectives: 1). to review the current state of ESG reporting standards and regulatory requirements in Indonesia; 2). to analyze the conceptual linkage between ESG reporting and green accounting from a long-term value creation perspective; and; 3). to propose a conceptual framework that explains how the integration of green accounting can transform ESG reporting from a compliance-based instrument into a strategic management tool.

4. LITERATURE REVIEW

The emergence of ESG reporting can be traced back to the broader sustainability reporting movement that began in the early 2000s (KPMG, 2020). ESG disclosures aim to provide information on environmental, social, and governance matters considered relevant to investors and stakeholders. In Indonesia, OJK Regulation No. 51/POJK.03/2017 formally requires financial institutions and public listed companies to publish Sustainability Reports. However, several studies (Sartono & Agustina, 2021; Hermawan et al., 2022) have found that Indonesian firms mainly publish sustainability reports to comply with regulations, and the practical use of the disclosed information remains limited.

Green accounting, on the other hand, refers to the identification, measurement, and incorporation of environmental costs and benefits into accounting systems (Bebbington, 2007). Unlike traditional financial accounting, green accounting emphasizes the quantification of environmental impacts in monetary terms, thereby allowing organizations to explicitly link environmental performance with financial outcomes. Various studies suggest that green accounting can serve as a performance management tool for corporate environmental strategies (Christ & Burritt, 2019) and is particularly relevant in emerging economies where environmental degradation is often severe.

The linkage between ESG reporting and green accounting is increasingly recognized in the literature (de Villiers & Dimes, 2022). For example, Indriyani and Fitriyah (2024) study the disclosure of environmental issue in reporting. Despite, finding of the study unveiled that the disclosure of environmental issue does not lead to the improvement of financial performance. However, study conducted by Arum (2019) found that there is a significant effect of green accounting implementation of earning sustainability. Morever, Lenggageni & Yanti (2023) further discuss green accounting role in support the disclosure of sustainability matters. It is also acknowledged that there is increasingly need of green accounting in firm reporting in global context (Dessmukh, 2025).

It is obsvious that ESG reporting provides a disclosure platform, whereas green accounting generates quantified environmental data that can support internal decision-making. Yet, a significant number of companies consider ESG disclosure as a communication exercise, while green accounting remains underdeveloped due to the lack of expertise and operational guidelines. In the Indonesian context, this results in sustainability reports that emphasize qualitative narratives rather than integrated environmental-financial data.

5. DISCUSSION

5.1 Current ESG Reporting Practices in Indonesia

Although the OJK has mandated sustainability reporting, the level of disclosure quality among listed companies remains highly heterogeneous. Many reports follow the Global Reporting Initiative (GRI) framework, but the consistency of reported indicators is limited. In addition, most companies tend to emphasize social and governance issues while providing only general information on environmental performance (e.g., energy consumption, waste management).

5.2 Conceptual Relationship between ESG and Green Accounting

Conceptually, green accounting can act as the backbone of ESG reporting by providing a systematic method for measuring environmental and resource-related costs. ESG disclosure can then serve as the communication channel for reporting green accounting outcomes. Without such integration, ESG reporting is detached from internal performance management and fails to influence strategic decision-making. In the long term, this may weaken the credibility of sustainability reports and reduce their usefulness for stakeholders.

5.3 Toward Long-Term Value Creation

Long-term value creation requires firms to internalize environmental risks and opportunities into their business models. Green accounting helps firms identify hidden or underestimated environmental costs, which can then be managed proactively. When integrated into ESG reporting frameworks, green accounting provides decision-relevant information that supports sustainable investment, product innovation, and operational efficiency. This is particularly relevant in Indonesia, where regulatory pressures on environmental issues are growing, and investors increasingly rely on ESG information to assess the resilience of listed firms.

5.4 Proposed Conceptual Framework

Drawing on the literature, this paper proposes a conceptual framework that positions green accounting as a core component of ESG reporting. The framework suggests three interrelated pillars:
(a) Environmental Measurement and Valuation – quantifying environmental inputs and outputs in monetary and physical terms; (b) ESG Information Integration – embedding green accounting data in ESG reporting systems; and; (c) Strategic Decision-Making – using integrated ESG–green accounting information to guide long-term investment, innovation, and stakeholder engagement strategies.
This framework highlights that ESG reporting can only contribute to long-term value creation if it is based on reliable and internally embedded green accounting systems.

6. CONCLUSION

This paper argues that ESG reporting by public listed companies in Indonesia has entered a critical phase where compliance alone is not sufficient to enhance long-term value creation. To move beyond symbolic compliance, firms need to adopt green accounting practices that translate environmental performance into decision-relevant financial information. A strategic integration of green accounting into ESG reporting could therefore transform sustainability disclosure from a communication tool into a management-control mechanism that supports corporate sustainability strategies. The proposed conceptual framework offers a basis for further empirical investigation and provides insights for policy-makers and practitioners seeking to improve the effectiveness of ESG disclosure in Indonesia.

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