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Understanding Institutional Influences on MSMEs' Environmental Accounting Adoption

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General Background: The Sustainable Development Goals (SDGs) are a global agenda that demands the active involvement of all sectors, including micro, small, and medium-sized enterprises (MSMEs). MSMEs make a significant contribution to economic growth; however, awareness and implementation of sustainability practices, particularly environmental accounting practices, remain relatively low. **Specific Background:** Previous studies have focused primarily on large companies, resulting in a limited understanding of the drivers (antecedents) of environmental accounting practices in MSMEs. **Knowledge Gap:** the need for a theoretical approach that can explain how institutional pressures (normative, coercive, and mimetic) can influence the environmental accounting behaviour of MSMEs. **Objective:** This study examines the antecedents of environmental accounting practices among MSME business actors to create a sustainable business. **Methods:** A qualitative approach was employed to analyze data on the direct and indirect drivers of the behavior of all MSMEs engaged in the food and beverage processing sector in East Java Province, as well as a sample of MSMEs in Lumajang District and Gresik District, to inform environmental accounting practices. **Results:** Provides empirical evidence on the direct and indirect drivers of the behaviour of MSMEs in ecological accounting practices. MSMEs in Indonesia achieve business sustainability through institutional mechanisms, driven by coercive, normative, and mimetic pressures. **Novelty:** This study explains the drivers of MSMEs' behaviour towards environmental accounting practices based on institutional theory mechanisms. **Implication:** This study suggests that MSMEs should adopt environmental accounting practices to promote sustainable development.

Keywords: Environmental Accounting, SDGs, MSME Behaviour, Institutional Theory.

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INTRODUCTION

Along with the growth of the MSME industry, it is proportional to environmental pollution due to waste generated from the production process (Seth *et al*., 2018). The production system of MSMEs in Indonesia, which still adheres to linear economic principles, the use of raw materials that are not environmentally friendly, and improper waste management make it one of the biggest contributors (Kusumowardani *et al*., 2022; Salim *et al*., 2024). The increasingly extreme pressure of industrial activities with high production rates compared to the slow rate of recovery of natural resources causes environmental degradation and damage to natural resources. This threatens the ecological sustainability and socio-economic life of companies, communities, and nations. The lack of implementation of environmental accounting results in the non-detection of ecological costs arising from business activities, which ultimately hinders the achievement of sustainable development goals. Given the strategic role of MSMEs, it is important to understand the factors that encourage or hinder the implementation of environmental accounting practices in this sector. This understanding will help formulate effective policies and strategies to promote more environmentally responsible business practices.

Managerial understanding and knowledge of environmental accounting and waste management strategies are critical in achieving business sustainability (Meilan *et al*., 2023). Environmental accounting is a new paradigm in accounting that focuses on the accounting process, not only on financial management and profit, but also on social and ecological considerations. The application of environmental accounting for business entities plays a role in informing about the company's operational performance based on environmental concerns, so that companies cannot simply manage company resources without considering their impact on society and the surrounding environment (Nuha *et al*., 2023; Tisna *et al*., 2020). Implementing environmentally friendly accounting practices and financial performance is a measure of long-term business sustainability (Dura & Suharsono, 2022). Environmental accounting can play a role in overcoming economic problems related to the environment arising from the company's production process (Scarpellini *et al*., 2020). As one of the economic engines in Indonesia that realizes financial sustainability, MSMEs are expected not to harm the interests of the environment and society (Saifurrahman & Kassim, 2024). MSMEs must understand and apply the concept of green accounting or environmental accounting when running their business because MSMEs also contribute greatly to generating waste that can sometimes pollute and damage the environment. But in reality, Indonesia has not yet moved towards concern for the environment, still prioritising business profits for survival (Indah Rakhma Ningtyas, 2024).

In contrast to other studies that examine the application of *green accounting* in the MSME business sector that focus on the functions, objectives, and concepts of environmental accounting quantitatively (Appannan *et al*., 2023; Indriastuti & Mutamimah, 2023; Ong *et al*., 2025), this study offers qualitative novelty by integrating institutional theory to examine environmental accounting practices in MSME actors which until now have rarely been explored in depth in Indonesia. This research provides empirical evidence regarding the direct and indirect drivers of MSME business actors' behaviour to engage in environmental accounting practices in Indonesia in realising business sustainability based on institutional mechanisms through coercive, normative, and mimetic pressures (DiMaggio & Powell, 1983). Most of the previous studies focused more on large companies or formal industrial sectors, with a focus on sustainability reporting in general. Meanwhile, this study attempts to specifically explore the institutional factors that influence MSMEs by considering the unique characteristics of MSMEs, such as business scale, access to information, and level of environmental awareness. In addition, this study also highlights the contribution of ecological accounting practices to the SDGs, which is rarely discussed in similar studies. The contributions in this study illustrate the importance of business attitudes, perceptions, and interests categorised as behaviour to implement environmental accounting as a form of realising business sustainability. In addition, external institutional pressures and knowledge of ecological accounting concepts affect the attitudes of MSME business actors in implementing environmental accounting.

Environmental Accounting

Environmental accounting is the tree of business sustainability. At the same time, young people are the rain of fresh ideas that feed and water it with creativity and produce the sparkling fruits of environmental change (Ahmad, 2023). Environmental accounting is an accounting information system that provides information on environmental aspects so that management can improve environmental and financial performance (Abu Afifa & Saleh, 2022). The concept of environmental accounting has emerged since 1970, namely in European countries (Cho *et al*., 2022; Aydin *et al*., 2023; Verma & Kandpal, 2021). One of the expectations with the emergence of environmental accounting is to improve the efficiency of environmental management by assessing the performance of the company's environmental activities. The emergence of environmental accounting is one of the goals to be achieved is to improve the efficiency of environmental management by evaluating the company's environmental activities.

Environmental accounting is used to collect, analyse, and use financial information to improve economic and ecological performance for companies to continue to exist in the future (Putrika, 2025). In accordance with the development of the times, environmental accounting has become very valuable. Sometimes, some changes require the development of accounting practices to produce good business units. When the company pays attention to its environment, the accounting system also develops. This convinces the company to be ready to accept various external influences. Environmental accounting is accounting that is environmentally based, including ecological variables in the costs resulting from company activities (Soesanto, 2020).

Environmental costs are expenses that must be borne by businesses as a form of commitment to safeguard the environment. Regulations regarding social responsibility accounting in Indonesia have been regulated in Statement of Financial Accounting Standards (PSAK) No. 57 issued by the Indonesian Institute of Accountants (IAI). Environmental accounting has three main aspects, namely environmental conservation costs, benefits, and economic benefits associated with environmental conservation activities. (Pramasita, 2022),

Presenting environmental reports through the provisions and getting a good ecological performance assessment is an important step that needs to be taken to gain business trust and gain business benefits in the future.

***Sustainability Development Goals* (SDGs)**

Sustainability Development Goals (SDGs) are a long-term global program to optimise the potential and resources owned by each country (Nabila & Arinta, 2021). One of the *Sustainable Development Goals* (SDGs) programmes is the issue of climate change and global warming, which is the 13th point *in the Sustainable Development Goals* (SDGs). Global warming, and climate change have become the most challenging environmental problems faced by various countries, including Indonesia. Public concern about the problems caused by climate change has led to the emergence of various environmental regulations. The issue of *sustainability* is the focus of development *in the Sustainable Development* Goals (SDGs), which are not only in the environmental sector but also extend to the economy and society around the world, with the same goal of supporting and achieving global sustainability.

SDGs are universal and inclusive development (Amirya & Irianto, 2023). Universal because it is not only implemented by less developed countries but also by developed countries for all nations in the world. Inclusive means that all levels and groups of society must benefit from development, including vulnerable/poor communities, people with disabilities, children, adults, women, and men. The five main foundations of the SDGs in maintaining balance are people, planet, prosperity, peace, and partnership (Cernev & Fenner, 2020). These five key foundations aim to achieve three goals by 2030: ending poverty, tackling climate change, and achieving equality.

The determination of the goals and targets of the SDGs has a comprehensive relationship between its pillars, namely the social, economic, environmental, and legal governance pillars (Ningrum *et al*., 2024). The ultimate goal of achieving the SDGs is to eliminate poverty, hunger, and reduce inequality (Leal Filho *et al*., 2021; Tiba, 2023). Other goals are catalysts/levers, namely clean water and proper sanitation, clean and affordable energy, innovation, industry, and infrastructure, responsible consumption and production of marine ecosystems, terrestrial ecosystems, and partnerships to achieve the goals.

Institutional Theory

Institutional theory is a theoretical framework that highlights how external environments, such as social norms, regulations, and industry practices, shape organisational behaviour (Ebrahimi & Koh, 2021; Oti-Sarpong *et al*., 2022; Rudko *et al*., 2025). In the view of this theory, organisations act not only based on considerations of efficiency or economic rationality, but also because of the need to gain legitimacy from the environment in which they operate. According to (DiMaggio & Powell, 1983), there are three types of institutional pressures that influence organisational behaviour: coercive, mimetic, and normative. Coercive pressures come from external forces such as government regulations or demands from stakeholders; mimetic pressures occur when organisations imitate practices deemed successful by other organisations to reduce uncertainty; while normative pressures arise from professional values, education, and social associations prevailing in the industry. In the context of SMEs, these pressures may influence the adoption of environmental accounting practices as part of the response to increasingly vigorous external demands on sustainability issues (Afolabi *et al*., 2023).

In this study, institutional theory is used to understand the antecedents or causal factors that encourage MSMEs to adopt environmental accounting practices as part of efforts to support the achievement of Sustainable Development Goals (SDGs). Given the limited resources and capacity of MSMEs to adopt accounting innovations, pressure from external institutions is key to shaping sustainable awareness and behaviour. For example, environmental regulations from the government (coercive pressure), competitors' success in implementing green practices (mimetic pressure), and encouragement from business associations or professional communities (normative pressure) can be significant drivers for MSMEs to start implementing environmental accounting. Thus, institutional theory not only provides a conceptual basis for understanding the factors that influence ecological accounting practices in MSMEs but also opens up opportunities to formulate policy strategies that can strengthen the influence of institutions in encouraging transformation towards sustainable business.

METHODS

The type of research used in this study is qualitative research. As explained by (Moleong, 2010), qualitative research is intended to provide an understanding of events related to what happened to the subject under study. Qualitative research is designed to explore and interpret the meaning that some individuals or groups of people ascribe to social or humanitarian problems (Creswell, 2016). Furthermore (Susilo & Mulyani, 2011) states that qualitative research is explained as a study that must be able to describe conditions broadly and with a holistic or contextual setting or situation through data collection from a "natural" setting by utilising the researcher as the key instrument and the character of the research is descriptive and tends to apply analysis with an inductive approach. The method and meaning from the subject's point of view are highlighted; besides that, the research report is compiled in the form of a creative and comprehensive description so that it brings out its natural characteristics.

This study aims to examine the antecedents of environmental accounting practices among MSME business actors to create a sustainable business. MSMEs are researched using direct interviews with MSME owners regarding ecological concerns, environmental accounting knowledge, and environmental accounting practices. The population in this study was all MSMEs engaged in the food and beverage processing sector in East Java Province. The sample of this research is food and beverage processing MSME entrepreneurs in Lumajang Regency and Gresik Regency as a pilot project model of antecedent analysis of environmental accounting practices in MSME business actors. The selection of samples of MSMEs in the food processing sector is because they use more raw materials from natural resources and produce relatively high waste that has an impact on the environment, so that calculations through environmental accounting are needed.

Gross Regional Domestic Product (GRDP) is one of the indicators used to measure the economic growth of a region. Differences in GRDP growth between districts indicate differences in financial performance. Based on data from the Central Statistics Agency in 2024, Gresik Regency is considered an area with good economic growth as evidenced by the economy of Gresik Regency in 2024 compared to 2023 which experienced a growth of 4.79% which was previously 4.62% (Official Gazette Official Gazette No. 05/03/3525/Th VI, 3 March 2025). Meanwhile, the economic growth rate in Lumajang district decreased from 5.00% in 2023 to 4.52% in 2024. Based on the difference in the increase and decrease in economic growth, which is also related to the growth of MSMEs, the author made Gresik and Lumajang districts the focus of the research.

Data processing and analysis in this research uses qualitative descriptive analysis, which is carried out to identify in depth the factors that encourage MSME business actors in the object of this research related to the application of environmental accounting. Data in explanatory research is based on the status, conditions, attitudes, relationships, and systems of thought of a problem that is the object of research. Furthermore, after obtaining research data from the field, researchers process the data by analysing, describing the data, and drawing conclusions. The data analysis technique in this study uses an analysis model including; 1) Data reduction to simplify the data obtained from research results in the field, 2) Presentation of data related to the factors driving the behaviour of MSME business actors in implementing environmental accounting practices on the object of research, 3) Verification and conclusion drawing by concluding data and information associated with the theory so as to produce valid and reliable data.

Data validity in this research is used to ensure the validity and reliability of data found in the field. The triangulation method was used in this research for data validity. The triangulation method in this research is source and method triangulation. Source triangulation was carried out by researchers by digging up information directly from informants regarding the factors that encourage the behaviour of MSME business actors to practice environmental accounting. The information was then compared to determine the validity of the data obtained, so that the resulting research results were in accordance with what happened in the field. Triangulation of methods validates the truth of information from informants by conducting interviews and observations. According to (Moleong, 2010), the validity of data must fulfil four criteria, namely credibility, *transferability*, dependability, and *certainty*.

RESULTS AND DISCUSSION

The informants in this study are MSMEs engaged in the food processing industry in Gresik and Lumajang districts. The selection of informants is based on the principle of this research as a pilot project model of analysing the antecedents of environmental accounting practices in MSME businesses, which will later be sustainable with a wider range of informants. The complete list of selected MSME informants is presented in Table 1.

[Table 1 about here.]

The interview method was conducted directly with MSME business owners who were sampled in this study. The questions asked of the informants were related to the antecedents of environmental accounting practices in MSME business actors in realising sustainability development goals through an institutional theory approach. The results of these interviews are summarised in Table 2.

[Table 2 about here.]

This study provides empirical evidence regarding the direct and indirect drivers of MSME business behaviour to conduct environmental accounting practices. MSMEs in Indonesia are realising business sustainability based on institutional mechanisms through coercive, normative, and mimetic pressures. These factors include the following:

Coercive isomorphism factor of environmental accounting practices

Coercive is a form of invitation through coercion or threat to implement environmental accounting. In this study, the coercive isomorphism factor is a form of adaptation made by MSMEs as business organisations to the environment due to pressure in the form of coercion or threats from the community. Institutional theory explains coercive factors as a form of institutional pressure, which is one of the driving factors for the implementation of environmental accounting. Legitimacy theory states that the organisation is part of society and society is part of the organisation's institutional environment, so it must pay attention to the social norms of society because conformity with social norms can make the company more legitimate, which will continue to create economic sustainability in MSME businesses.

Based on the interviews with the informants in this study, it is clear that pressure from institutions forces organisations to change business practices to conform to the rules that apply in their institutional environment. The institutional environment is an environment that consists of various social and cultural rules that organisations must comply with. The institutional environment in this study is the societal environment in which business organisations operate, which consists of the government and society that directly affect business activities. An organisation is part of society, and society is part of the organisation's institutional environment, so MSMEs must pay attention to the social norms that exist in society to become a legitimate business organisation.

MSMEs as business organisations need to adapt to their institutional environment by implementing environmental regulations set by the government to manage and minimise the environmental impacts of business activities. This indicates that environmental accounting practices can be improved by putting pressure on MSME business actors. Increasing the likelihood of implementing environmental accounting practices among MSME business actors by means of coercion can be achieved through positive attitudes triggered by perceived benefits, motivation, risk perception, and external influences. Attitude towards behaviour refers to a person's view of a behaviour that affects them with positive or negative outcomes. Behaviour in complying with government regulations, responses to media issues related to the

environment, social life in the community, and customer satisfaction are coercive factors that encourage environmental accounting practices among MSME businesses.

Normative pressure factors on environmental accounting practices

Normative pressure arises through professionalism that occurs with formal education or the formation of professional associations. Institutional theory explains that normative pressure is a form of institutional pressure, which is one of the drivers of the implementation of environmental accounting practices in the MSME sector. Normative pressure on MSME business actors is related to the knowledge of business actors with the concept of ecological accounting, where the idea regulates the costs of environmental management.

Based on the results of interviews with informants in this study, normative pressure influences MSME business actors in implementing environmental accounting practices. The level of formal education and membership in professional associations of MSME business actors cannot be fulfilled. The diversity of formal education levels and membership in professional associations affects MSME business actors in terms of literacy regarding environmental costs and understanding how to charge these ecological costs in their business costs. Thus, formal/non-formal education and institutional socialisation encourage businesses to implement environmental accounting practices.

Imitation factor of environmental accounting practices

An organisation tends to adopt institutional practices from other organisations in society. In (Saeed *et al*., 2018), it is explained that the decision to implement environmental cost management by different organisations is based on the recognition of how important environmental cost management is in an organisation. This can be interpreted that MSME businesses will be encouraged to implement environmental accounting because they imitate other businesses that have implemented environmental accounting first.

Based on the results of interviews with informants, it is explained that they do not have a background and or knowledge of accounting, especially environmental accounting. This indicates that business actors certainly do not see the benefits of environmental accounting practices that are useful to assist businesses in managing environmental costs by minimising environmental impacts. Limited information related to accounting as a decision-making tool is the reason why MSME business actors do not understand it. Business actors stated that they rarely or never received socialisation about accounting as a method of recording business, so information about accounting and environmental practices is also limited, and they do not even understand that accounting and environmental practices are related to each other. Therefore, the pressure exerted by other MSME business actors cannot be a motivator for other business actors in practising environmental accounting due to different perceptions in managing businesses and managing the environment.

MSMEs are Indonesian economic actors that have great potential in contributing to Gross Domestic Product (GDP). MSMEs also have the potential for environmental pollution through production to post-consumption activities. This identifies that MSMEs need to be developed by considering various potentials, both in terms of finance and ecology, through sustainable MSME development. The awareness of MSME actors of the importance of implementing sustainable business activities is indicated by the implementation of environmental accounting-based businesses.

The application is seen based on four aspects of business activities, including production, marketing, business management, and financial aspects. These aspects determine the direction of the green business model run by MSMEs. The green business model consists of three levels, including *eco-adopter*, *eco-entrepreneur*, and *eco-innovator* (Wibowo, 2022). *Eco-adopter* is the level where MSMEs have adopted green practices, but have yet to capture green market opportunities. *Eco-entrepreneur* is the level where MSMEs have adopted green practices and captured green market opportunities. *Eco-innovator* is the level where MSMEs have innovated green practices and captured green market opportunities.

This research resulted in a study of the behaviour of MSMEs that have implemented three levels of green business models. At the *eco-adopter level*, MSMEs have adopted green practices but have not captured green market opportunities. This implementation is shown when conducting digital-based marketing. MSMEs try to minimise environmental pollution and market their products efficiently. Product marketing is generally done by printing banners, making pamphlets, and so on, which have an impact on paper waste. MSMEs here practice this by utilising digital marketing. Pamphlets are not printed, but only distributed through Instagram, WhatsApp, TikTok, and social media.

These MSMEs also apply the eco-entrepreneur business model, which is illustrated by production activities in the form of waste processing, including herbal extraction pulp, tofu pulp, tempeh, and chicken processed into animal feed, which, of course, has added value and has instilled education on the importance of preserving the environment. Businesses also utilise organic waste to make organic fertiliser. In addition, MSMEs also utilise non-organic waste such as cardboard, plastic bottles, and old newspapers to sell to scrap metal makers/other parties to be processed into handicrafts, so that MSMEs also get additional income.

In addition, MSMEs also apply the Eco-innovator business model (Jędrzejczyk, 2021) and (Altuzarra Artola, 2024). Eco-innovation is innovation that explicitly emphasises the reduction of environmental impacts, both intentional and unintentional. Eco-innovation is a form of activity that produces goods and services to measure, prevent, limit, minimise or repair environmental damage to water, air and soil as well as problems related to waste and ecosystems, including technology, products and services that reduce environmental risks and minimise pollution. The implementation carried out by MSMEs is in producing and marketing products by minimising air pollution. The raw materials chosen are also natural, and the marketing also minimises activities that cause air pollution.

In addition to successfully implementing the three levels of MSMEs, namely eco-adopter, eco-entrepreneur, and eco-innovator, MSMEs have also actually calculated the cost of environmental conservation. The cost of environmental conservation is treated as an investment in the procurement of production facilities and infrastructure, and provides direct benefits. For example, MSMEs have successfully formulated and implemented policies that prohibit the use of activities that cause air, water, or noise pollution. Personnel policies such as smoking bans during production activities, single-use paper reuse policies, and waste treatment so as not to increase exhaust gases. In the long run, MSMEs can enjoy conversion benefits in the form of a good image, awards, and publicity/promotion that will strengthen their reputation as a very caring and environmentally friendly MSME.

CONCLUSION

This study provides empirical evidence regarding the direct and indirect drivers of MSME business behaviour to conduct environmental accounting practices. MSMEs in Indonesia are realising business sustainability based on institutional mechanisms through coercive, normative, and mimetic pressures. These factors include coercive isomorphism factors of environmental accounting practices, normative pressure factors of environmental accounting practices, and mimetic factors of environmental accounting practices.

The awareness of MSME actors of the importance of implementing sustainable business activities is indicated by the implementation of environmental accounting-based businesses. The application is seen based on four aspects of business activities, including production aspects, marketing aspects, business management aspects, and financial aspects. These aspects determine the direction of the green business model run by MSMEs. The green business model consists of three levels, namely eco-adopter, eco-entrepreneur, and eco-innovator. MSMEs also need to calculate the cost of environmental conservation as an investment in the procurement of production facilities and infrastructure, and provide direct benefits.

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***Table 1** / List of Informants*

No	Information	Type of business
1	Informant 1	Tofu Business
2	Informant 2	Herbal Medicine Business
3	Informant 3	Tempe Wedok Business
4	Informant 4	Abon Business

***Table 2** / Results of Interviews with Research Informants*

No	Question	Yes/No Answer			
		Tofu Business	**Turmeric Tamarind Herbal Medicine Business**	**Tempe Wedok Business**	**Abon Business**
1	Have you done environmental management planning?	NO, I don't understand	environmental management planning.	NO, I don't understand that.	NO, I only know business management
2	Does your business budget or allocate funds for environmental management activities?	NO, because my business is in my own home	No, because I only budget to produce raw materials for this business.	NO, I don't know about that.	NO, because while trying, I felt I was protecting the environment around me.
3	Do you know that a business has a concept of environmental accounting?	NO, I don't understand accounting science	NO, I do not understand the concept of environmental accounting.	NO, I don't know about that.	NO, I don't know about that.
4	Are you not worried about spending money on environmental needs as a necessary business expense?	YES, because I think it is a good thing if it is to protect the environment.	YES, if it is necessary to spend money on the environment to support the sustainability of my business, I am ready to do so.	YES, I don't mind if it is essential to protect the environment.	YES, I'm not worried about whether it's good for the environment.
5	Do you agree that environmental costs need to be met/paid by business actors?	Yes, I agree		Yes, I agree because the purpose is clear.	Yes, I agree, I agree.
6	Do you charge environmental costs as part of your business expenses?	YES, because I process my business waste to be used by the livestock that I own.		YES, I use it for environmental cleaning fees because the waste is managed by other people for animal feed.	YES, I use it for ecological cleaning contributions
7	Does your business use environmentally friendly materials?	YES, I use raw materials directly from nature, and the tofu processing process is carried out carefully so as not to pollute the environment.	YES, I use natural, eco-friendly ingredients.	YES, I use banana stems to wrap tempeh.	YES, I use both organic and non-organic ingredients.

8	Do you understand that protecting the environment is the same as safeguarding survival and supporting sustainable development?	YES, it is essential	YES, it is important to do	YES, it is essential	YES, it is essential in my opinion
9	Have you been ensuring that your business waste does not pollute the environment?	YES, I have prepared a special waste disposal channel so that it does not overflow into people's houses.	Yes, I will try to keep this business waste from polluting the environment.	YES, I take care of it	YES, because the waste from my chickens I use to feed my livestock