The correlation of environmental management system and financial performance: a systematic literature review

A correlação entre o sistema de gestão ambiental e o desempenho financeiro: uma revisão sistemática da literature

DOI:10.34117/bjdv9n12-089

Recebimento dos originais: 17/11/2023
Aceitação para publicação: 22/12/2023

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ABSTRACT
Environmental Management System (EMS) is a management system which relates to diverse plans formulated to focus on activities aimed at enhancing awareness, performance and protection of the environment. EMS is a part of the management system which includes the structure of the organization, implementation of procedures, development resources, responsibilities and maintenance of environmental policies. And certainly, the utmost crucial aspect of a corporation is the financial performance. Hence, this research’s aims is to find out the correlation between EMS and financial performance. The method used is systematic literature review. The result of this research is EMS has an effect to the financial performance. There is a positive correlation between Environmental Management System and financial performance. A good relationship between the Environmental Management System and financial performance can have a good influence on various other aspects in pursuing a sustainable environment, and can lead to various benefits and improvements.
Keywords: environmental management system, financial performance.

RESUMO
O Sistema de Gestão Ambiental (EMS) é um sistema de gestão relacionado a diversos planos formulados para se concentrar em atividades destinadas a aumentar a conscientização, o desempenho e a proteção do meio ambiente. O SGA é uma parte do sistema de gestão que inclui a estrutura da organização, a implementação de procedimentos, recursos de desenvolvimento, responsabilidades e manutenção de políticas ambientais. E, certamente, o aspecto mais importante de uma corporação é o desempenho financeiro. Portanto, o objetivo desta pesquisa é descobrir a correlação entre o EMS e o desempenho financeiro. O método utilizado foi a revisão sistemática da literatura. O resultado desta pesquisa é que o EMS afeta o desempenho financeiro. Há uma correlação positiva entre o Sistema de Gestão Ambiental e o desempenho financeiro. Uma boa relação entre o Sistema de Gestão Ambiental e o desempenho financeiro pode ter uma boa influência sobre vários outros aspectos na busca de um ambiente sustentável e pode levar a vários benefícios e melhorias.

Palavras-chave: sistema de gestão ambiental, desempenho financeiro.

1 INTRODUCTION
The environment is a space occupied by living things, both humans, animals, and plants along with living and non-living things in it. Humans depend a lot on the environment to continue their lives. Therefore, if the environment is disturbed, then human life can be disrupted as well. However, it is not uncommon for the environment to be disturbed due to human actions themselves. Many humans overuse the environment which causes damage to the environment itself. All humans need to realize that the environment that has provided many benefits for them needs to be maintained for their own needs as well.

Human efforts to maintain the balance and sustainability of the environment can be done by using an environmental management system. In order to gain a good results in the field of environmental maintenance, there must be a full commitment to implementing an environmental management system. Environmental management itself is a conscious effort to maintain and maintain the environment around humans so that the quality of the environment is not reduced and can meet human needs properly. This management can be done in various forms, both when preventing damage from occurring and repairing damage that has occurred. All efforts to protect the environment will affect various other fields of human life. One of them is the economic field through financial performance (Tambunan, 2018).
There are many expert opinions that discuss the meaning of financial performance. It can be said that financial performance is an achievement that a company has at a certain time which is reflected in the company's financial statements which are in a healthy condition (Winarto and Dewi, 2019). This relates to finances in a company that can relate to many things. Environmental management systems can be one of the things that affect the financial performance of a company. Some companies that depend on the environment for their production, for example, their financial performance will depend on the quality of the environment around them (Muda et al., 2019). There are several previous studies that have attempted to answer the relationship between the company’s financial performance and the environment in which they live.

The company's own financial performance can be used by the company for various purposes that they need. For example, as a record for them to make decisions in the future. In addition, financial performance can also find out what external factors can affect the finances of the company itself. Companies can also find out how efficient and effective they are in generating revenue (Winarto and Dewi, 2019). Financial performance itself is also the first face of a company to cooperate with outsiders. If the financial performance of a company is good, investors will find it easier to be interested in the company and invest in them. In other words, the financial health of a company is reflected in their financial performance report.

Looking at the various backgrounds that have been explained, this research with the title "The Correlation of Environmental Management System and Financial Performance: A Systematic Literature Review" which tries to answer the question of whether there is a relationship between the environmental management system and the financial performance of a company.

2 LITERATURE REVIEW
2.1 ENVIRONMENTAL MANAGEMENT SYSTEM (EMS)

The Environmental Management System is an indispensable system for managing the environment. It is an indispensable system because it has an influence on many things that run through environmental performance.

ISO 14001: 2004 explains that the environmental management system is an environmental management system that has been recognized internationally through a certificate issued by ISO (International System Organization) (Muda et al., 2019). This system is part of the entire management system used for environmental empowerment.
Part of the overall management system includes organizational structure, planning, responsibility, implementation, procedures, processes, and resources to develop, implement, achieve, review, and maintain environmental policies.

ISO 14001 makes environmental policy a central document that must be known, commits to follow the law, makes continuous improvements, and is also the basis for determining goals and objectives. Kasman and Isyandi (2013) explain that if environmental policy control can be fulfilled properly, then control of various other things will certainly run more easily. This is why environmental performance is so useful and plays a major role in running an environmental management system.

The environmental management system is a component of a broader management framework encompassing elements like organizational structure, activity planning, roles and responsibilities, procedural practices, processes, and allocated resources. This comprehensive system is designed to operate and facilitate the effective management of the environment. The aspects mentioned in the theory must synergize with each other. The synergy that is built aims to make environmental management run a good system that can support the environment to live sustainably.

From the understanding of the two experts above, it can be concluded that the environmental management system is a system used to organize, manage, and supervise the sustainability of the environment. The environmental management system has various aspects that can support the running of this environmental management, such as the organizational structure, how to carry out the system, to the resources used to run the system in order to achieve the goals to be achieved.

2.2 FINANCIAL PERFORMANCE

Tyas (2020) says that financial performance is a performance seen in the financial statements owned by the company or business entity concerned. The report contains a balance sheet, income statement, and other reports that can strengthen the financial performance (Riani et al., 2020). Financial performance is an analysis conducted to find out to what extent a company is carrying out financial implementation regulations properly.

According to Fahmi (2012), financial performance is said to be an analysis conducted to find out the extent to which a company has carried out activities using various financial implementation rules properly by what is applicable. This performance describes the financial condition of a company which is then analyzed using financial
analysis tools (Sadalia et al., 2019). In addition, Sucipto (2003) explains that financial performance itself means the determination of various specific measures that can be used to measure the success or failure of a company or organization in making a profit when carrying out its activities.

Munawir (2006:31) explains why financial performance is important to pay attention to and run. Some of the reasons include: (1) To determine the level of liquidity, which relates to how companies or organizations obtain their financial obligations that must be met immediately; (2) To carry out solvency, namely the ability of companies or organizations to pay their obligations if they have to be liquidated by other parties; (3) Knowing the level of profitability or profitability, is a goal to find out how much profit the company can generate in a certain period of time; (4) So that the company's finances experience business stability as measured by various financial measurements, such as the ability of companies or organizations to pay interest expenses on debt.

From several views and opinions of existing experts, it can be concluded that financial performance is a variety of activities in a certain period of time that are carried out systematically. This performance is then reported on the company or organization's financial statements, for example, the company or organizational income statement. Financial performance is very important for a company or organization because it is to see the flow of funds of the company or organization.

3 RESULT AND DISCUSSION

Based on the various results of a research review on the discussion of the correlation of EMS to financial performance, it was found that EMS is affecting the financial performance of the company.

Table 1: Articles selected for the study

<table>
<thead>
<tr>
<th>No.</th>
<th>Author</th>
<th>Title</th>
<th>Year of Publication</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Kevin Watson, Beate Klingenberg, Tony Polito, Tom G. Geurts</td>
<td>Impact of environmental management system implementation on financial performance: A comparison of two corporate strategies</td>
<td>2004</td>
<td>We found in this journal that EMS does not negatively affect the financial performance of the companies studied.</td>
</tr>
<tr>
<td>2.</td>
<td>Chris K.Y. Lo Andy C.L. Yeung, T.C.E. Cheng</td>
<td>The impact of environmental management systems on financial performance in fashion and textiles industries</td>
<td>2012</td>
<td>This research on the fashion and fashion industry leads us to conclude that companies that use EMS systems in their operations must have a positive impact on their financial performance.</td>
</tr>
<tr>
<td>3.</td>
<td>Taiwen Feng, Da Wang</td>
<td>The Influence of Environmental Management</td>
<td>2016</td>
<td>This research shows empirical results that EMS has a positive impact on</td>
</tr>
<tr>
<td>No.</td>
<td>Author(s)</td>
<td>Title</td>
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<td>4.</td>
<td>Taiwen Feng, Di Cai, Dan Wang, Xiaodi Zhang</td>
<td>Environmental management systems and financial performance: The joint effect of switching cost and competitive intensity</td>
<td>2016</td>
<td>In this research, it is shown that there is a positive influence originating from the relationship between the environmental management system and financial performance.</td>
</tr>
<tr>
<td>5.</td>
<td>Tze San Ong, Boon Heng Teh, Sin Huei Ng, Wei Ni Soh</td>
<td>Environmental Management System and Financial Performance</td>
<td>2016</td>
<td>Based on this research, the companies in the research sample experienced improvements in various aspects because they used ISO 14001. This improvement then had a positive effect on the financial performance of the companies.</td>
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<tr>
<td>6.</td>
<td>Hang Song, Chunguang Zhao, Junping Zeng</td>
<td>Can environmental management improve financial performance: An empirical study of A-shares listed companies in China</td>
<td>2017</td>
<td>Environmental management has a significant positive relationship with the following year's business performance, and environmental management has the potential to significantly improve future profitability.</td>
</tr>
<tr>
<td>7.</td>
<td>Cosmina L. Voinea, Bas-Jan Hoogenberg, Cosmin Fratostiteanu and Hammad Bin Azam Hashmi</td>
<td>The Relation between Environmental Management Systems and Environmental and Financial Performance in Emerging Economies</td>
<td>2020</td>
<td>A larger than average EMS scope can lead to poor financial performance that because high environmental management costs and overheads.</td>
</tr>
<tr>
<td>8.</td>
<td>Berwin Anggara, Vera Apri Dina Safitri, Isbahna Naz</td>
<td>Implication of Environmental Management System and Environmental Performance on Financial Performance of Entities with Foreign Ownership as Moderator</td>
<td>2021</td>
<td>This study provides results that the company's financial performance is not influenced by the Environmental Management System.</td>
</tr>
<tr>
<td>9.</td>
<td>Shoaib Aslam, Mohamed H. Elmagrhi, Ramiz Ur Rehman, Collins G. Ntim</td>
<td>Environmental management practices and financial performance using data envelopment analysis in Japan: The mediating role of environmental performance</td>
<td>2021</td>
<td>Based on this study, environmental management practices (EMP) have a positive impact on financial performance.</td>
</tr>
<tr>
<td>11.</td>
<td>Surender Kumar &amp; Pritika Dua</td>
<td>Environmental management practices and financial performance: evidence from large listed Indian enterprises</td>
<td>2022</td>
<td>Empirical results show that environmental management has a positive impact on corporate profitability and market valuation.</td>
</tr>
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</table>

Source: Authors
4 CONCLUSION

The environmental management system is a system used to do work, supervise, and regulate the environment so that the environment can live sustainably. Financial performance is a performance that is used to take care of various matters relating to the finances of a company or organization. With financial performance, we can find out whether the company is able to generate how much profit in a certain time.

Through literature review studies that have been conducted, most of the literature says that environmental management systems have an influence on financial performance. If environmental management is carried out properly, then financial performance will also move in a positive direction. This positive influence is indicated by a positive impact on customer satisfaction and loyalty, company profitability, market valuation, and also costs incurred. Even so, there are some findings that say that environmental management systems don’t have any impact or effect on the financial performance of opposing parties.
REFERENCES


