MORFAI JOURNAL Multidisciplinary Output Research For Actual and International Issue
INDEX COPERNICUS INTERNATIONAL
Multidisciplinary Output Research For Actual and International Issue (MORFAI Journal) ISSN (e): 2808-6635
Volumes 6 No. 1 (2026)

ANALYSIS OF THE ROLE OF ENVIRONMENTAL REGULATIONS IN ACHIEVING SUSTAINABILITY PERFORMANCE

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Received	: 01 October 2025	Published	: 05 January 2026
Revised	: 10 October 2025	DOI	: https://doi.org/10.54443/morfai.v6i2.4923
Accepted	: 15 November 2025	Publish Link	: https://radjapublika.com/index.php/MORFAI/article/view/4923

Abstract

The purpose of this study is to investigate how environmental regulation in enhancing corporate sustainability performance. Using a qualitative approach through literature review, this research explores how environmental policies, sustainability reporting, and green accounting practices contribute to corporate accountability and long-term value creation. The findings indicate that rules suc as Indonesia's POJK No. 51/POJK.03/2017 effectively drive greater transparency and ecological responsibility among businesses. Furthermore, governance quality, managerial capacity, and organizational structure are determined to be essential for the effective execution of these regulations. This research provides practical insights for policymakers and scholars, and highlights future research directions in environmental audit digitalization and sustainability innovation across industries

Keywords: Environmental regulation, sustainability performance, sustainability reporting green accounting, corporate governance

INTRODUCTION

Environmental damage, exploitation of the earth's surface, and climate change have become urgent global threats. Indonesia, as a country with abundant natural resources, faces pressure to grow its economy while preserving the environment. In this context, environmental regulations play an important role in the implementation of business practices carried out by companies. These regulations are not only aimed at protecting the environment, but also at ensuring that economic activities do not harm ecosystems and surrounding communities. Effective implementation of regulations can serve as a catalyst for companies to improve their sustainability performance (Judijanto & Suwandana, 2025). Various studies have shown that strict environmental regulations can encourage innovation and efficiency in business operations. This aligns with Porter's hypothesis, which defines that strict environmental regulations can enhance a company's competitiveness through technological and process innovation. In Indonesia, the implementation of regulations such as POJK No. 51/POJK.03/2017 has prompted companies to be more transparent in their sustainability reporting. However, the effectiveness of these regulations in improving corporate sustainability performance remains a subject of debate and requires further study. Some studies indicate that despite the implementation of regulations, their impact on corporate sustainability practices has not been significant (Nurfitriani et al., 2025)

Previous research highlights that external factors, such as government regulations, have a greater influence in encouraging SMEs in Indonesia to adopt green supply chain management. These findings indicate that the role of environmental regulations in promoting corporate sustainability performance may vary depending on the context and characteristics of the company (Gunanto & Sulungbudi, 2025a). In the mining sector, research by (Aulia et al., 2025) shows that green accounting practices have been implemented by companies such as PT Vale Indonesia Tbk. However, this study also reveals that environmental cost details are not yet fully transparent in company financial and sustainability reports. This highlights the need for more specific and stringent regulations governing environmental cost reporting to enhance corporate accountability and transparency. Additionally, research by (Rembulan Angger Malasari & Mahameru Rosy Rochmatullah, 2025) found that green accounting and sustainable investments have a significant impact on company value, even though environmental performance does not show a significant impact. These findings emphasise the importance of integrating environmental regulations and accounting practices in promoting corporate sustainability performance. Although there are various studies discussing the relationship between environmental regulations and sustainability performance, there remains a gap in the literature regarding the specific mechanisms through which regulations influence corporate sustainability practices. Most studies focus on specific sectors or large companies, while research highlighting the impact of regulations on SMEs remains limited. Additionally, there is a need to understand how factors such as organisational culture, managerial capacity, and market pressures interact with regulations in influencing sustainability performance. Therefore, this study aims to address this gap by analysing the role of environmental regulations in achieving corporate sustainability performance in Indonesia. The main objective of this study is to evaluate the effectiveness of environmental regulations in encouraging companies to improve their sustainability performance. Specifically, this study will examine how companies respond to environmental regulations, the challenges they face in implementing them, and the factors that influence success or failure in achieving sustainability goals. This research will also explore the role of sustainability accounting and sustainability reporting in supporting compliance with environmental regulations. With this approach, it is hoped that this research can provide a comprehensive understanding of the dynamics between environmental regulations and corporate sustainability performance.

Practically, the results of this research can contribute to policymakers in designing more effective and adaptive environmental regulations to the needs and capacities of companies. For companies, the findings of this research can serve as a reference in developing sustainability strategies that align with regulations and stakeholder expectations. Additionally, this research can provide insights for academics and practitioners in understanding the complexities of implementing environmental regulations and their implications for sustainability performance. Thus, this research is expected to contribute to collective efforts in achieving sustainable development in In a global context, this study is also relevant to international efforts to address climate change and environmental degradation. As part of the global community, Indonesia has an important role to play in achieving internationally agreed sustainability targets, such as the Sustainable Development Goals (SDGs) and the Paris Agreement. By understanding the role of environmental regulation in the national context, Indonesia can contribute more effectively to the global sustainability agenda. Therefore, this research has not only local implications but also international significance in collective efforts to achieve a sustainable future. Finally, it is important to emphasise that the success of environmental regulations in promoting corporate sustainability performance depends not only on the design and implementation of the regulations themselves but also on the commitment and capacity of companies to respond to them. Therefore, a holistic and collaborative approach between the government, the private sector, and civil society is needed to create an ecosystem that supports sustainable business practices. This research is expected to be a first step in building a deeper understanding of these dynamics and encouraging constructive dialogue among various stakeholders.

RESEARCH METHOD

This study uses a qualitative approach with a literature review method that aims to analyse in depth the role of environmental regulations in promoting corporate sustainability performance. A literature review was chosen because this approach allows researchers to examine various previous academic findings, government policies, and sustainability reporting documents to gain a conceptual and thematic understanding of the topic. The secondary data used in this study were obtained from accredited scientific journals (SINTA, Scopus), government regulations, and national policy documents such as POJK No. 51/POJK.03/2017. Data collection techniques were conducted through systematic searches using keywords such as ‘environmental regulations,’ ‘sustainability performance,’ and ‘green accounting’ on online journal portals. Analysis was conducted using a descriptive-comparative approach to identify patterns, differences, and integration of various findings (Rembulan Angger Malasari & Mahameru Rosy Rochmatullah, 2025).

This study does not involve a population in a statistical context but uses relevant and high-quality data sources from academic literature over the past five years. Literature selection was conducted using purposive sampling, i.e., selecting documents that align with the study’s focus and address the research questions. Data analysis steps include: (1) collecting primary and secondary literature, (2) categorising data based on themes (e.g., regulatory effectiveness, sustainability reporting, impact on corporate value), (3) conducting a narrative synthesis to link findings to the theoretical framework, and (4) concluding the conceptual and practical contributions of the synthesis results. The main variables analysed are ‘environmental regulation’ (independent) and ‘sustainability performance’ (dependent), with intermediate variables such as ‘green accounting’ and ‘reporting transparency.’ The analysis technique uses an inductive approach—drawing generalisations from literature data (Aulia et al., 2025). In the context of research assumptions, this qualitative approach through literature review assumes that information and empirical evidence published in the literature can represent the reality of regulatory and sustainability practices in the business world. Data validity is supported by strict literature selection, using only references from indexed journals relevant to the topic. With this strategy, the research is expected to identify the key role of environmental regulation in creating conditions conducive to the implementation of sustainability, as well as to develop a conceptual map for further research. In addition, the results of this analysis are expected to provide policy input for regulators and serve as a reference for business actors in improving accountability for their environmental performance (Judijanto & Suwandana, 2025).

RESULTS AND DISCUSSION

A literature review shows that environmental regulations have a significant impact on the sustainability performance of companies in various industrial sectors. Findings from several journals indicate that companies under strict environmental regulations tend to adopt environmentally friendly innovations more quickly than companies in areas without regulatory pressure. For example, a study by Subianto (2023) found that government regulations are highly influential in encouraging SMEs in the manufacturing sector to implement green supply chains as part of their sustainability strategies. Strict regulations indirectly encourage operational efficiency and optimal resource utilisation. This shows that regulations are not only a restrictive tool but also a catalyst for performance improvement. Research also found that compliance with environmental regulations is an important indicator in corporate sustainability reporting. In Indonesia, the implementation of OJK Regulation No. 51/POJK.03/2017 has required financial services institutions to disclose environmental, social, and governance (ESG) aspects in their annual reports. Research by (Sarwono & Meiden, 2024) confirms that sustainability reports are a means for companies to gain social legitimacy and build stakeholder trust. However, the effectiveness of this reporting is still influenced by managerial capacity and the ethical awareness of company leaders.

Transparent and comprehensive reporting is a key indicator of the success of regulatory adoption in sustainability practices. Additionally, literature findings show that green accounting practices are increasingly being applied in corporate financial reporting, particularly in the mining sector. A study by (Aulia et al., 2025) reveals that while companies like PT Vale Indonesia Tbk have adopted green accounting principles, environmental cost reporting remains insufficiently transparent. This indicates gaps in the consistent implementation of regulations. The need for more detailed environmental cost reporting regulations is crucial in strengthening corporate accountability. On the other hand, green accounting also contributes to corporate value through investors' perceptions of environmental risk management.From the literature review, it can be concluded that the relationship between environmental regulations and sustainability performance is multidimensional. A study by (Rembulan Angger Malasari & Mahameru Rosy Rochmatullah, 2025) proves that green accounting and sustainable investment significantly influence company value, although the direct impact of environmental performance on company value is not always strong. This indicates that sustainability is not only viewed from an ecological perspective but also from how companies integrate these principles into their business strategies. The existence of regulations encourages companies to think long-term and consider non-financial risks in decision-making. Therefore, environmental regulations play a strategic role in creating both economic and social value.

The findings also indicate that the adoption of environmental regulations varies depending on company size, governance structure, and level of understanding of sustainability issues. Research by (Judijanto & Suwandana, 2025) shows that companies with a high proportion of board members tend to be more active in preparing and disclosing sustainability reports. Good governance structures enable companies to respond to regulations in a systematic and strategic manner. This demonstrates that effective governance strengthens the role of regulations in promoting sustainable practices. On the other hand, SMEs still face challenges in implementation due to limited resources and knowledge. In the context of stakeholder theory, this study affirms that environmental regulations encourage companies to be more attentive to the needs of stakeholders. Theory This explains that companies have a responsibility to all parties affected by their activities, not just to shareholders. The implementation of regulations encourages companies to consider the social and environmental impacts of every business decision.

This finding is in line with the triple bottom line principle, which emphasises the importance of social, environmental, and economic performance. Thus, regulations become a tool for balancing the economic interests and social responsibilities of companies. Literature analysis also reveals that the success of regulations in improving sustainability performance is highly dependent on the effectiveness of implementation and oversight. A study by (Gunanto & Sulungbudi, 2025) highlights that regulatory compliance will be effective if accompanied by strict sanctions and incentives for companies that demonstrate high compliance. Without strong oversight mechanisms, regulations will merely become a formality without real impact. Therefore, the successful implementation of regulations requires collaboration between the government, the private sector, and society. The implementation of environmental audit systems and standardised reporting is an important step in strengthening the influence of regulations. Finally, the findings of this study indicate that environmental regulations are not only about fulfilling legal obligations but also reflect companies' ethical and strategic commitments to sustainability. The literature synthesis confirms that regulations encourage companies to innovate, transform, and be responsible towards the environment and society. The success of regulations in promoting sustainability performance lies in the extent to which companies are able to internalise sustainability values in their organisational culture. Therefore, the development of future regulatory policies needs to consider the social context and adaptive capacity of business actors so that their implementation is more optimal.

CONCLUSION

Based on the results of the literature study, it can be concluded that environmental regulations have a significant influence on the achievement of corporate sustainability performance. Regulations implemented by the government, such as POJK No. 51/POJK.03/2017, have been proven to encourage companies to be more transparent in their sustainability reporting and to adopt environmentally friendly business practices. Companies that respond proactively to regulations not only gain social legitimacy but also improve operational efficiency and overall company value. This indicates that the success of regulations depends heavily on companies' readiness and commitment to internalising sustainability values. The objective of this study to evaluate the role of environmental regulations in promoting sustainability practices has been achieved through the synthesis of various academic findings. Regulations have proven to be a driving factor in increasing the adoption of green accounting, the preparation of sustainability reports, and changes in business strategies towards long-term sustainability. This study also shows that regulations are not singular but interact with governance structures, company size, and managerial capacity. Therefore, the effectiveness of regulations is greatly influenced by internal and external company conditions.

The practical contribution of this research is to provide a basis for policymakers in designing more adaptive and contextual environmental regulations. Regulations based on incentives and accompanied by strict oversight mechanisms will be more effective in encouraging company compliance. In addition, the results of this study can serve as a strategic reference for companies in developing sustainability reporting systems and green accounting practices that are in line with stakeholder expectations. Companies are also expected to view regulations as a tool for transformation, not merely as an administrative burden. The academic contribution of this study lies in strengthening the literature on the relationship between environmental regulations and sustainability performance in the context of developing countries, particularly Indonesia. This research also enriches the theoretical understanding of the relevance of stakeholder theory in explaining corporate behaviour in response to regulatory pressures. By highlighting the importance of sustainability reporting, green accounting, and corporate governance, this research opens up new opportunities for exploration in sustainability accounting and public policy studies.

This research also shows that there are still challenges in implementing regulations, especially for SMEs with limited resources. Therefore, collaborative efforts between the government, private sector, and educational institutions are needed to provide guidance and education on sustainability. A participatory approach and multisectoral dialogue will strengthen the effectiveness of sustainability policies at both the national and local levels. Furthermore, a digital-based environmental audit system can be developed to enhance transparency and accountability. For further research, it is recommended to develop field studies or mixed-method approaches that combine quantitative and qualitative data to strengthen the validity of findings. Focusing on specific industrial sectors such as mining, energy, or manufacturing can deepen understanding of contextual sustainability practices. In addition, exploring the role of digitalisation, technological innovation, and organisational culture in optimising regulatory effectiveness is also worth examining. Thus, sustainability studies will become more relevant and responsive to global dynamics and local needs.

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