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## ENVIRONMENTAL AUDIT: AN COMPANY'S OBLIGATION OR NECESSITY

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### Abstract:

This article aims to explore the position of environmental auditing from the perspective of a corporate obligation or need. The method used is a conceptual study based on an analysis of the underlying theory of environmental audits in companies. The results of the analysis and study stated that (1) environmental audits are seen as a corporate obligation that must be fulfilled both legally and morally; and (2) environmental audits are a need for the company's "strategic role" in the context of sustainability for competitive advantage. However, making environmental audits a necessity is more profitable. Because companies do not just conduct environmental audits symbolically but make them a necessity that enables them to build sustainable competitive advantages through efficiency, innovation, and a positive image. This study implies that symbolic activities carried out by companies will not provide value or competitiveness in the long term but will only serve to drop obligations.

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## INTRODUCTION

The company's existence increasingly has negative environmental impacts, such as pollution, carbon emissions, floods, and the like (Schaltegger & Burritt, 2018). The cases that have occurred in several regions of Indonesia over the last three months, such as in Sumatra, Aceh, and West Java, provide clear evidence that the destruction of nature due to the exploitation of natural resources is a serious concern. In addition, data indicate that greenhouse gas emissions from the industrial sector will increase by 40% by 2025. This condition will certainly pose a threat to environmental sustainability if serious, integrated alternative problem-solving is not carried out without stopping the company's activities, because it will have a crucial domino effect.

Existing companies have been able to carry out environmental awareness activities, ranging from *corporate social responsibility* programs to current developments in environmental *reporting* (Diouf & Boiral, 2017). This certainly shows that the company does not focus solely on profit but also cares about the environment (*planet*). Various activities are carried out and reported by the company to demonstrate that they are a vital part of maintaining the company's future sustainability. Including the "*net-zero emission*" and "*zero waste*" campaigns is an important part of giving the image that the company has a strong commitment to the environment. However, these claims are based solely on the company's subjectivity and are essentially nothing more than limited rhetorical language, out of harmony with the activities carried out (Boiral et al., 2020). Companies widely use this practice because third parties, who independently verify the correctness of these "environmental" activities, such as audited financial statements, issue an opinion by a Public Accountant (Independent).

Verification of environmental impact (in this case, an environmental audit) is still low. However, the fact is clear: Law number 32 of 2009 concerning Environmental Protection and Management makes environmental audits an instrument to monitor the company's sustainability. Specifically, the government issued regulation of the Minister of Environment No. 3 of 2013 concerning environmental audit, generally regulating 3 aspects, namely (1) environmental auditor certification; (2) environmental audit obligations; and (3) implementation of environmental audits. Finally, it is strengthened by PermenLH/BPLH No. 7 of 2025, which regulates the company rating assessment program in environmental management (PROPER), which is closely related to the evaluation of the company's environmental performance.

Moreover, globally, environmental audits are regulated, with companies in high-risk sectors such as mining, energy, and the chemical sector required to conduct them (Tauringana & Chithambo, 2015). This strategic position provides stakeholders with a strong foothold to improve the effectiveness of environmental audits, so that cases of environmental pollution detected by the Ministry of Environment and Forestry in the Brantas watershed in August 2025 do not recur. Environmental audits can monitor and verify the accuracy of environmental data reported by companies, ensuring that the environmental activities carried out are correct and not just a "mirage" (Cohen & Simnett, 2015).

Some theories, such as *legitimacy theory* (Dowling & Pfeffer, 1975) and *stakeholder theory* (Freeman, 1984), emphasize the role of environmental audits as a company's response to *stakeholder* pressure (external parties) to maintain *sustainability* and *social license to operate*. Meanwhile, in the context of *institutional theory* (DiMaggio & Powell, 1983), environmental audits are institutional practices that occur through three processes: coercive, normative, and mimetic, in the organizational environment. The obligation to conduct environmental audits stems from social construction carried out for the common good, in the form of formal or professional regulations. It became clear that environmental audits have strong legitimacy both in practice, regulation, and theory.

Power's article (1997) confirms that environmental audits are part of the accountability and transparency mechanism in corporate governance and reduce reputational risks. However, environmental audits are also used by companies as an instrument of symbolic legitimacy through the practice of *greenwashing* (Lyon & Montgomery, 2015). These two aspects become interesting if discussed in depth: whether environmental audits are a regulatory obligation or a strategic need for companies, and whether the concept has received much study. Philosophically, there is still little discussion of the normative basis of environmental audits as a company's moral obligation, rather than solely its needs or legal obligations. As a result, this article aims to explore the position of environmental auditing from the perspective of a corporate obligation or need.

## LITERATURE REVIEW

As an instrument for conducting a conceptual study and analysis of the existence of environmental audits, the following are the views of seven relevant underlying theories. First, the theory of legitimacy introduced by Dowling and Pfeffer (1975) holds that companies seek to ensure their activities align with society's norms and values to gain recognition. One social norm and value that must be met is not to harm the surrounding environment, including pollution, carbon emissions, and related activities. In this context, to avoid a negative impact on the company and maintain its recognition in the community, environmental audits are part of the mechanisms implemented.

Second, stakeholder theory, developed by Freeman (1984), holds that the company is not only profit-oriented but must also provide benefits to all stakeholders

affected or influenced by the company, such as the community, the environment, and others. To deliver positive benefits, the company must assure that its operational activities do not damage the environment and related areas, so an independent environmental audit is needed as a bridge between the company and *its stakeholders*.

Third, the institutional theory by DiMaggio & Powell (1983) explains that a company's structure and behavior are shaped by environmental pressures to gain legitimacy. The company does not stand on its own; rather, it adopts best professional practices, such as sustainability reporting *trends*. In this context, companies conduct environmental audits for three reasons: coercive, normative, and mimetic. Coercively, companies conduct environmental audits due to mandatory regulation; normatively, because professional organizations demand environmental audits to comply with existing standards; and mimetically, because a company that conducts an environmental audit follows other companies that are considered successful in optimizing environmental performance.

Fourth, the signal theory proposed by Spence (1973) holds that company management, as the party sending information, will tend to give positive signals to stakeholders to reduce information asymmetry and increase company value. In this context, the existence of environmental audit as a solution to agency conflicts between companies and their stakeholders, where environmental activities supported by environmental audits will be a positive signal for companies, such as CSR activities and disclosures (Rani et al., 2025).

Fifth, the agency theory developed by Jensen and Meckling (1976) suggest that in a company, there is an agency conflict between principal and agent, as a solution to this agency conflict is an environmental audit conducted by a third party (independent) to verify the company's environmental claims to reduce information asymmetry and increase the credibility of reporting (Eisenhardt, 1989). *Sixth, the OECD (2015) Good Corporate Governance (GCG)* theory states that environmental audits are part of a good corporate governance mechanism to ensure transparency, accountability, and corporate responsibility towards all stakeholders, including the environment (Aguilera & Cuervo-Cazurra, 2009).

Seventh, the theory of Responsive Regulation, put forward by Ayres and Braithwaite (1992), holds that corporate compliance with environmental regulations can be achieved through a multi-level approach, ranging from persuasion to sanctions.

Environmental audits are a tool for verifying companies' compliance with applicable environmental regulations (Gunningham & Sinclair, 2017).

## RESEARCH METHODS

This article is a conceptual study developed through a systematic theoretical analysis approach (Schreiber & Cramer, 2024) to seven underlying theories relevant to the existence of environmental audits in companies, namely: legitimacy theory, stakeholder theory, institutional theory, signal theory, responsive regulatory theory, resource theory, and capability theory. The selection of these seven theories is based on their relevance in explaining the phenomenon of corporate environmental accountability. The selection of conceptual study methods enables the development of new frameworks of thought by synthesizing and elaborating existing theories (Jaakkola, 2020). Each theory is studied philosophically in the context of environmental audits based on the seven basic theories and then elaborated on each other to determine whether environmental audits are an obligation or a need for companies. The elaboration process is carried out through three stages: (1) identification and philosophical study of each theory; (2) analysis of the relationship between theories in the context of environmental audits; and (3) a synthesis to produce an environmental audit position mapping as the essence of this conceptual study. The results of this mapping are expected to make a conceptual contribution to the development of environmental accounting science in Indonesia.

## RESEARCH FINDINGS

Views on environmental auditing theories are broadly divided into two perspectives: obligation and necessity. The following are the results of mapping the views of each of these theories.

No.	Theory	Conclusion
<b>Environmental audit as a obligation</b>		
1	Legitimacy Theory (Dowling & Pfeffer, 1975)	Environmental audit is a process the company has carried out to ensure its activities comply with the community's social norms and values, especially without a negative impact on the environment.

No.	Theory	Conclusion
<b>Environmental audit as a obligation</b>		
2	Stakeholder Theory (Freeman, 1984)	An environmental audit is a tool to provide benefits to all <i>stakeholders</i> , not just to pursue profits.
3	Institutional Theory (DiMaggio & Powell, 1983)	Environmental audits are carried out due to institutional pressure through three motives: (1) coercive, namely, regulatory pressure and legal obligations; (2) normative, namely, the demands of professional standards and professional organizations; (3) mimetic, imitating the practices of other successful companies.
4	Agency Theory (Jensen & Meckling, 1976)	Environmental audits are a tool to minimize agency conflicts, ensuring that agents (management) act in accordance with the interests of the principal (stakeholders).
5	Responsive Regulation Theory (Ayres & Braithwaite, 1992)	Environmental audits are applied flexibly based on a company's level of behavior and capacity, so that companies can choose between voluntary, reminded, or forced.
<b>Environmental audit as a necessity</b>		
6	Signal Theory (Spence, 1973)	Environmental audits serve as positive signals that reduce information asymmetry and increase company value, thereby maintaining stakeholder trust.
7	Resource and Capability Theory (Wernerfelt, 1984; Barney, 1991)	Environmental audit as a strategic instrument to develop organizational capabilities and build a positive image in response to sustainability issues in the context of competitive advantage.

Source: *Processed Results, 2026*

It becomes clear that the prevailing theory views environmental audits as an obligation rather than a need for the company. In detail, each theoretical viewpoint will be described as follows.

## DISCUSSION

### Environmental Audit as an Obligation

In essence, an obligation is an action that must be carried out with full responsibility to meet certain demands (legally) or respect the rights of other parties (morally). According to KBBI, an obligation is something mandatory, something that must be carried out, or a must. In the context of environmental audit, it is an obligation of the company that must be fulfilled both legally and morally. First, legal obligations

arise from regulations requiring companies to conduct environmental audits. This is, of course, supported by institutional theory, which, in its coercive aspect, holds that companies conduct environmental audits as a form of regulatory compliance. Without mandatory regulations, companies "in this context" will not carry out environmental audits. Globally, there are requirements for ISO 14001:2015 *Environmental Management Systems*, the *European Union Eco-Management and Audit Scheme (EMAS)*, and the *European Sustainability Reporting Standards (ESRS)*. In the Indonesian context, it begins with (1) Law No. 32 of 2009 concerning Environmental Protection and Management; (2) Regulation of the Minister of Environment No. 03 of 2013 concerning Environmental Audit; (3) Government Regulation No. 22 of 2021 concerning the Implementation of Environmental Protection and Management; and (4) Regulation of the Minister of Environment Number 3 of 2013 concerning Environmental Audit.

It became clear that companies, "in accordance with the provisions," conducted environmental audits under regulatory pressure, becoming obedient and compliant to avoid existing sanctions. The company no longer thinks about how much it costs to spend, because conducting environmental audits is expensive. However, because of its existence and the avoidance of sanctions, it is still fulfilled. This is also justified by the theory of responsive regulation, which holds that companies conduct environmental audits as a form of coercion to avoid sanctions. This condition certainly implies that regulations or legal rules will bind the company to remain compliant with its obligations, thereby minimizing the environmental impact and ensuring the company's sustainability in the community by balancing rights and obligations.

Several research results state that environmental audits are a legal obligation for the harmonization of sustainability audit standards (La Torre, et. al., 2020; De Villiers, et. al., 2020) as a legal obligation in the capital markets (García-Sánchez, et. al., 2021), and as an EU legal obligation on the Corporate Sustainability Reporting Directive (CSRD) (Pizzi, et. al., 2021 and Talbot & Boiral, 2023).

Second, the moral obligation arises from considerations of conscience, ethics, and the principle of right and wrong. The company conducts an environmental audit as a form of ethics that must be fulfilled because it "wants" to ensure that the activities carried out are in accordance with applicable ethics or social norms, so an independent party is needed to provide assurance. The guarantee is a form of the company's responsibility to *its stakeholders* and a tool of legitimacy for its environment, ensuring

that the company does not violate applicable norms and ethics. This is emphasized in stakeholder theory, which holds that environmental audits are carried out to ensure that the company provides benefits to all stakeholders, not just to pursue profits. Likewise, other theories, such as legitimacy theory, agency theory, and institutional theory from a mimetic perspective, suggest that environmental audit serves to minimize the negative impact companies have on society to maintain their sustainability. So, with considerations of conscience, ethics, and the principles of right and wrong, the company, in the view of responsive regulatory theory, voluntarily conducts environmental audits to reduce the potential for ethical violations in society.

Several research results state that environmental audits are an obligation of 'moral accountability' (Maroun, 2020; Channuntapipat, et. al., 2020; Martínez-Ferrero, et. al., 2021), as a professional moral obligation (Larrinaga, et. al., 2020), as an anti-greenwashing moral obligation (Abhayawansa, et. al., 2021), and as a moral SDGs (Hummel, et. al., 2021).

In fact, companies not only face real regulatory pressures, but also much larger abstract conscience and ethical pressures. This abstract pressure is as simple as it is massive and, unconsciously, becomes a threat to the company's future sustainability. Companies with environmental impacts will give a negative image in the eyes of the public and consumers, especially investors and potential investors, resulting in lower company value. For this reason, environmental audits position themselves as an obligation, so they become a necessity to be fulfilled; not only will they be independent of sanctions or morality, but they will also prevent the negative impact that harms many parties. Then, when it is repaired, it will collapse the stakeholder legitimacy.

### **Environmental Audit as a Necessity**

According to KBBI, needs are necessary for survival. Philosophically, needs become an inevitability that, if not fulfilled, will lead to dysfunction, danger, or death, in the context of environmental audit as a company's need for sustainability. The Resource-Based View states that environmental audits are a company's strategy for competitive advantage. By conducting an environmental audit, the company can detect and protect against potential environmental impacts at an early stage and formulate the form of anticipation to be carried out. The result is that the company can utilize the strategy to increase efficiency and increase profitability, so that the company's

sustainability can be "controlled". Likewise, the theoretical view of the environment's capabilities as a strategic instrument for developing organizational capabilities and building a positive image in response to sustainability issues in the context of competitive advantage.

The company's positive image is also a signal to *stakeholders* and potential investors, as viewing it fosters a positive impression of the company, strengthening the potential to survive and become an investor, and vice versa. Signal theory holds that environmental audits serve as a positive signal, reducing information asymmetry and increasing company value to maintain stakeholder trust (Ramadhania & Fauziah, 2025). Conducting an environmental audit in light of these three theories is a basic necessity for the company's future survival.

Several research results state that environmental audits are a risk management need (Birkey, et. al., 2020), as a competitiveness need (Helfaya & Moussa, 2020), as a need for environmental performance validation (carbon) (Datt, et. al., 2020), as a need for capital cost efficiency (Zorio, 2022), and as a need for improving stock performance (Zhang, 2022).

As a result, it becomes clear that although the two perspectives take different paths, they share the same "goal": ensuring that the company's environmental audit practices are carried out effectively and sustainably, so that the company's existence does not harm stakeholders or the surrounding environment. The company contributes to its interests by making a profit while adhering to the rules and ethical principles, as well as the wisdom (dignity) that must be observed.

Moreover, although it has the same goal, it is a critical mistake for companies to view environmental audits as an obligation driven by regulatory and legal sanctions, as this positions them as a passive response to external pressures. Companies conduct environmental audits not out of awareness, but out of fear of legal consequences. DiMaggio & Powell (1983) assert that coercive pressure encourages companies to conduct environmental audits symbolically without truly internalizing the underlying value; this condition is referred to as isomorphism without substance. According to Meyer & Rowan (1977), this ceremonial obedience creates a decoupling between formal policies and real practices in the company. As a result, companies have lost strategic momentum and have failed to make environmental audits an instrument for long-term business transformation in line with the spirit of the SDGs.

As a result, companies must change their paradigm not only to comply, but also to make environmental audits a strategic imperative. The Theory of Resources and Capabilities (Barney, 1991) emphasizes that companies that make environmental auditing a necessity can build a sustainable competitive advantage through efficiency, innovation, and a positive image. Signal Theory (Spence, 1973) also emphasizes that proactively conducted environmental audits signal trust to investors and the market. Thus, companies that shift from the "forced" to the "need" paradigm will be more adaptive, resilient, and able to create long-term value for all stakeholders. The company will get two benefits, namely (1) gain the advantage that the company has fulfilled its obligations for environmental impact, and (2) gain the long-term benefit that what is being done is a long-term strategy that will be able to increase the company's value and competitiveness.

## CONCLUSION

The study of this concept provides the results of the analysis, that (1) environmental audits are seen as a corporate obligation that must be fulfilled both legally and morally; and (2) environmental audits are a need for the company's "strategic role" in the context of sustainability for competitive advantage. However, making environmental audits a necessity is more profitable. Because companies do not just conduct environmental audits symbolically but make them a necessity that enables them to build sustainable competitive advantages through efficiency, innovation, and a positive image. This study implies that symbolic activities carried out by companies will not provide value or competitiveness in the long term but will serve to drop obligations.

The limitation of this article is that it provides reviews based solely on the underlying theory and supported by several research results, so the requirements are subjective. The next article can conduct a case study of companies that are mandated to conduct environmental audits, thus providing a conclusion on whether the company conducts an environmental audit as an "obligation" or a "necessity".

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