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Analysis Of The Influence Of Green Accounting, Environmental Performance And Firm Size On Financial Performance

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ABSTRACT

This study aims to examine the effect of green accounting, environmental performance, and firm size on financial performance. The background of this study focuses on the growing importance of green accounting practices due to increasing environmental awareness and sustainability among companies, and how these factors can affect a company's financial performance. The data used in this study consists of secondary data in the form of annual reports from non-cyclical consumer sector companies listed on the Indonesia Stock Exchange for the 2017-2022 period. The sampling method employed was purposive sampling, resulting in 120 data points from 20 companies. The test was conducted using multivariate statistical analysis with the SEM-PLS approach, supported by Smart-PLS software. The findings of this study indicate that green accounting has a negative effect on financial performance, environmental performance has a positive effect on financial performance, and firm size has a negative effect on financial performance. The novelty and main contribution of this study lie in the finding that green accounting does not always have a positive impact on financial performance, which contrasts with previous studies that showed a positive relationship. Additionally, this study provides insights into the impact of environmental performance and firm size on financial performance, offering important considerations for companies when formulating long-term policies and strategies.

INTRODUCTION

Environmental issues are currently a hot topic of discussion among corporations and regulators. Managers are now under extreme pressure from shareholders to increase profits and productivity, while other stakeholders such as the public and government are urging them to reduce the environmental impact of their products and processes. In fact, recently the world received a “code red for humanity” warning from scientists from the Intergovernmental Panel on Climate Change (IPCC), which predicted that in the next 20 years global warming, which is the cause of extreme weather disasters around the world, is at risk of getting out of control if we continue to do business as usual regardless of the management of the environmental impacts caused, and not reducing carbon dioxide emissions drastically (Kompas, 2021). Global environmental issues continue to develop rapidly and have implications for stakeholder needs (Ethika et al., 2019).

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Based on data from the Ministry of Environment and Forestry (KLHK) in 2021, Indonesia produced 60 million tons of Toxic and Hazardous Materials (B3) waste. Of this total, the manufacturing sector is the largest contributor. A total of 2,897 manufacturing sector industries produce B3 waste. If this waste is not managed properly, it will cause problems for stakeholders. An example of a case that occurred related to poor environmental management was what happened in April 2019 at the company PT Pindo Deli Pulp and Paper Mills 3 which discharged its waste into the Cibeet River so that it was filled with foam (VOI.id). In addition, at the end of 2019, several textile companies in Bandung, namely PT FJ, PT BCP, PT TB, were revealed not to have destroyed their waste but instead buried it in residential areas in Karawang. This phenomenon shows that there are still many companies with a low level of concern regarding environmental issues in order to gain profit. Companies are reluctant to spend money to manage their company's waste. In fact, if you don't pay attention to the environment, it can cause serious problems. This is in line with the explanation provided by Siregar et al. (2019), Risqi (2022), who state that companies' low concern for environmental issues in the pursuit of profit can lead to serious problems.

Considering the environmental impact, companies must respond promptly to these challenges. Freeman (1984) defines stakeholders as any group or individual who can affect or be affected by the achievement of a company's objectives. This theory asserts that a company's ability to operate effectively depends on the strategic inclusion of stakeholders in decision-making (Ganda, 2018). Managing various types of stakeholders effectively can help a company achieve a broader impact. Additionally, according to the Legitimacy Theory by Dowling and Pfeffer (1975), companies must ensure that their operations align with the boundaries and norms accepted by society. One effort companies make to legitimize their existence is by operating in accordance with these societal norms and expectations. This need for legitimacy has driven the development of the green accounting concept, which serves as a form of responsibility and accountability to society, enabling companies to gain the reputation they desire. To protect the environment, one significant effort is the implementation of green accounting. Companies that integrate environmentally friendly practices not only enhance their reputation but also increase profitability, as consumers reward them through eco-friendly purchases. Green accounting is a system designed to create costs and obtain environmental benefits (Rounaghi, 2019). It provides crucial information that helps managers evaluate, operate, control, decide, report, and protect (Rounaghi, 2019). Furthermore, green accounting serves as a tool to measure the economic efficiency of environmental conservation activities and the overall environmental efficiency of the business. Longoni and Cagliano (2018) stated that implementing green accounting is beneficial for improving a company’s reputation and financial performance. In contrast, Chen et al.(2018) argue that green accounting has a weak and negative impact on financial performance..

In creating a good environment, it is necessary to achieve environmental performance. To gain greater support from stakeholders and provide increased financial performance, companies are encouraged to improve environmental performance. This can be conceptually supported by the legitimacy and stakeholder theory, which states that increasing the number of social contacts between companies and stakeholder communities is beneficial (Gholami et al., 2022). Environmental performance is the measurable result of an environmental management system related to the control of its environmental aspects. To assess performance corporate environment, the Ministry of Environment (KLH) uses the Corporate Performance Rating Assessment Program in Environmental Management (PROPER) through information instruments. The ranking is divided into 5 color rankings, starting from the best gold, green, blue, red, to the worst black. The existence of PROPER helps the public in assessing which companies have a good reputation in environmental management and which companies have a bad reputation in environmental management.

Table 1
Recapitulation of Proper Ratings 2017-2022

Scale	2017	2018	2019	2020	2021	2022
Black	1	2	2	2	0	2
Red	146	241	303	233	645	887
Blue	1,427	1,454	1,507	1,629	1,670	2,031
Green	150	155	174	125	186	170
Gold	19	20	26	32	47	51
Amount	1,786	1,872	2012	2.021	2,548	3.141
Total proper members	1,819	1,906	2.045	2,038	2,593	3,200

Source: PROPER, Ministry of Environment and Forestry (2023)

The table above shows that in 2021, there was a significant increase in the performance of companies with a red rating, namely 645 companies. This happened because in 2021, there was an increase in new PROPER participants of 631 companies, which was the largest increase in the history of PROPER and based on the decision of the Minister of Environment and Forestry (LHK) by considering the evaluation results of the PROPER Technical Team of the Directorate General of Pollution Control and Environmental Damage and the Directorate General of Waste Management, Waste and B3 KLHK and the Province as well as considerations from the PROPER Advisory Council, the Minister of Environment and Forestry determined 645 companies with a red rating, 1,670 companies with a blue rating, 186 companies with a green rating and 47 companies with a gold rating. Meanwhile, 45 more companies are in law enforcement/not operating/suspended. So, it can be concluded that there are still companies with a red rating. This means that the company has not carried out environmental management properly in accordance with laws and regulations. In fact, if companies manage the environment well, they can build public trust in social responsibility (Asjuwita & Agustin, 2020).

Companies that focus on environmental performance will improve the company's image in the future, which will have an impact on improving financial performance. This is proven by research by Qi et al. (2014), Gholami et al.(2022) (2022), Chen et al. (2023) that environmental performance has a positive effect on financial performance. Different results in Meiyana and Aisyah's research (Meiyana & Aisyah, 2019), Asjuwita and Agustin (2020) which states that environmental performance does not affect financial performance

In making investments, investors also consider the total assets owned by a company, known as the company size. Companies with larger sizes have more opportunities to obtain funding from external parties, as they are seen to have a greater chance of succeeding in competition and surviving in the industry (Meiyana & Aisyah, 2019). Larger companies are perceived as more capable of generating profits, which ultimately leads to improved financial performance. This is supported by Pratiwi and Herawati (2022) who argue that firm size positively influences financial performance. They suggest that larger companies benefit from economies of scale and better access to funding, which result in better financial outcomes. Furthermore, Dowling and Pfeffer (1975) discussed the theory of legitimacy, which posits that a company’s ability to operate successfully depends on its alignment with societal norms and expectations. Larger companies are often subject to more public scrutiny, which can impact their financial performance, either positively or negatively, depending on how well they maintain their legitimacy.

This study was conducted due to the limited number of similar studies in Indonesia, as well as the differences or gaps in the results of previous research. Studies by Meiyana and Aisyah (2019) and Pratiwi and Herawati (2022) show that firm size has a positive effect on financial performance, as larger companies can benefit from economies of scale, easier access to funding, and greater capacity for innovation and efficiency improvements. On the other hand, research by Ahinful and Tauringana (2019) and Rahmatin and Kristanti (2020) found that firm size negatively affects financial performance, due to factors such as more complex bureaucracy, higher operational costs, and difficulties in maintaining flexibility. These differences in findings create a gap in understanding the effect of firm size on financial performance, which this study aims to explore further by examining the factors influencing this relationship in the Indonesian context.

MATERIALS AND METHODS

This study uses a descriptive and verification research method with a quantitative approach to identify significant relationships between variables. The population consists of issuers listed on the Indonesia Stock Exchange (IDX) from 2017 to 2022, with secondary data collected from the annual reports of non-cyclical consumer sector companies. This sector was chosen because it includes companies that provide essential products with stable demand, even during economic fluctuations, making it particularly relevant for analyzing financial performance and green accounting practices. Purposive sampling was employed to select companies that met specific criteria: they must be listed on the IDX, be members of PROPER, publish annual reports, use Rupiah as their reporting currency, and report consecutive positive profits from 2017 to 2022. Data were obtained through documentation from the Indonesia Stock Exchange and PROPER websites. Documentation was carried out by tracing the annual financial reports, sustainability reports, PROPER annual reports published by the Ministry of Environment and Forestry. Annual report data was obtained from the official website of the Indonesia Stock Exchange (IDX), namely www.idx.co.id and the PROPER annual report was obtained from the official PROPER website, namely proper.menlhk.go.id. Data analysis used multivariate statistical analysis with the Structural Equation Modeling-Partial Least Square (SEM-PLS) approach using the Smart PLS (Partial Least Square) software tool version 4.0.9.5.

The operational variables in this study are financial performance, green accounting, environmental performance and firm size. Briefly, it can be seen in Table 2.

Table 2
Operationalization of Variables

Variables	Definition	Measurement Scale	Measurement
Financial performance (Y)	Financial performanceis an analysis carried out in order to see to what extent an entity has implemented financial conditions properly and correctly based on existing regulations (Fahmi, 2020 p. 271).	Ratio	$\text{ROA}\frac{\text{Net Profit}}{\text{Total Assets}}$
Green accounting (X1)	Green accountingis a prerequisite for environmental resource conservation (Verma and Kandpal 2021).	Nominal	Green accountingin this study is measured using the dummy method. Value 1 if there is environmental cost disclosure; 0 if there is no environmental disclosure.

Table 2 – Continued

Variables	Definition	Measurement Scale	Measurement
Environmental performance (X2)	Environmental performance is a positive consequence of the implementation of environmental accounting on the natural environment inside and outside the company (Chen et al., 2018).	Interval	PROPER Value 5 for gold, value 4 for green, value 3 for blue, value 2 for red and value 1 for black.
Firm size (X3)	Total assets are used in this study as a proxy for firm size. According to Agustina and Suryani (2018), the company's total assets will be more stable than total sales and more relevant than market capitalization.	Ratio	Size = L n x total Assets

RESULTS AND DISCUSSION

This study uses documentation data from 120 total samples.

Year	Information	Minimum	Maximum	Mean

2017	Green accounting	0	1	0.2
	Environmental performance	3	4	3.2
	Firm size	27.46	32.11	29.91
	Financial performance	0.04	0.53	0.13
2018	Green accounting	0	1	0.25
	Environmental performance	2	4	3.05
	Firm size	27.50	32.20	29.98
	Financial performance	0.01	0.45	0.13

Table 3-Continued

Year	Information	Minimum	Maximum	Mean
2019	Green accounting	0	1	0.3
	Environmental performance	3	4	3.05
	Firm size	27.44	32.20	30.03
	Financial performance	0.00	0.42	0.14
2020	Green accounting	0	1	0.4
	Environmental performance	3	4	3.05
	Firm size	27.59	32.73	30.16
	Financial performance	0.03	0.35	0.10
2021	Green accounting	0	1	0.45
	Environmental performance	3	4	3.05
	Firm size	27.77	32.82	30.24
	Financial performance	0.04	0.30	0.12
2022	Green accounting	0	1	0.45
	Environmental performance	3	4	3.05
	Firm size	27.70	32.83	30.29
	Financial performance	0.03	0.29	0.12

Source: Primary data, processed (2023).

Table 3 shows that the minimum value of green accounting is constant for six years, which is 0. While the maximum value of green accounting is constant for six years, which is 1. The green accounting variable is a dummy variable, therefore the minimum and maximum values are only 0 and 1. The mean value of green accounting fluctuated during the first five years of the observation period. The mean value in 2017 was 0.2, then in 2018, 2019, 2020, 2021 it increased successively to 0.25, 0.3, 0.4, 0.45. While in 2022 there was no increase or decrease, the mean value of green accounting was the same as the previous year, which was 0.45. In this study, the mean value of green accounting tends to increase from year to year.

In addition, the environmental performance variable shows that the minimum environmental performance value fluctuated over three years. In 2017, the minimum environmental performance value was 3, then in 2018 it decreased to 2, namely in the company HM Sampoerna Tbk. In 2019 it increased again to 3, and so on in 2020, 2021 and 2022 the minimum environmental performance value was constant at 3. The maximum environmental performance value during the 2017-2022 observation period was 4. The total mean environmental performance value in 2017 was 3.2, then decreased in 2018 to 3.05. Furthermore, in 2019, 2020, 2021 and 2022 the mean environmental performance value did not change from 2018, which was 3.05. Based on statistical data, it can be said that the companies that were the observation samples on average received a blue rating for their environmental performance. This means that the company has complied with environmental standards in its business activities

In addition, the firm size variable in Table 3 shows that the minimum value of firm size during the observation period is 27.44, namely in the company Akasha Wira International Tbk. The total assets owned by Akasha Wira International Tbk are relatively small compared to other companies so that the firm size value is small. The maximum value of firm size is 32.83, namely in the company PT Indofood Sukses Makmur Tbk. The total assets owned by PT Indofood Sukses Makmur Tbk in 2020 increased

quite significantly compared to 2017-2019. The average value of firm size in 2017 was 29.91 then in 2018, 2019 and 2020, 2021, and 2022 experienced successive increases to 29.98, 30.16, 30.24 and 30.29. Based on these statistical data, it can be said that the firm size in the observation sample has increased from 2017 to 2022.

The statistical results of financial performance show that the minimum value of financial performance from 2017 to 2022 is 0.00 at Sawit Sumbermas Sarana Tbk. While the maximum value of financial performance is 0.53 at Multi Bintang Indonesia Tbk. The mean financial performance value in 2017 and 2018 was 0.13, then in 2019 it increased to 0.14, but in 2020 it decreased to 0.10. In 2021, the mean financial performance value increased again to 0.12, and in 2022 the mean financial performance value was 0.12. The mean financial performance value tends to increase.

Table 4
R-square Analyst Results

	R-square	R-square adjusted
Financial performance	0.162	0.14

Source: Smart PLS Output (2023)

Based on Table 4, it can be seen that the R-square value is 0.162 and the adjusted R-square is 0.14. This study uses multivariate statistical analysis, so the adjusted R-square is used. In this study, the adjusted R-square value was 0.14. This value is included in the weak group. So it can be interpreted that green accounting, environmental performance and firm size have an effect on financial performance by 14%. While the remaining percentage is likely influenced by other variables outside the study.

Table 5
Q2 Predictive Relevance Analysis Results

	Q^2predict
Financial Performance	0.019

Source: Smart PLS Output (2023)

Based on Table 5, it can be seen that the Q2 predictive relevance value is 0.019 > 0. This indicates that the observed values have predictive relevance.

	Original sample(O)	Sample mean	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values
EP => FP	0.237	0.236	0.136	1,743	0.041
GA=> FP	-0.465	-0.464	0.144	3.241	0.001
FS => FP	-0.258	-0.259	0.077	3.362	0.000

Source: Smart PLS Output (2023)

Discussion

The Influence of Green Accounting on Financial Performance

The results of the hypothesis testing in Table 6 show a T statistics value of 3.241> 1.65 p-value of 0.001 <0.05, indicating that green accounting has an effect on financial performance. The negative path coefficient value suggests that the relationship between green accounting and financial performance is in the opposite direction. As a result, Hypothesis 1, which posited that green accounting has a positive effect on financial performance, is rejected. This finding is consistent with the study by Chen et al. (2018) which concluded that green accounting has a negative effect on financial performance. This outcome can be explained through the lens of stakeholder theory and legitimacy theory. According to stakeholder theory, companies are influenced by various stakeholders (such as investors, consumers, and regulatory bodies), and their actions, including the implementation of green accounting, aim to meet stakeholder expectations (Freeman, 1984). In the short term, implementing green accounting can lead to increased costs for companies, particularly in environmental management

and compliance, which can negatively impact financial performance. Stakeholders may expect companies to incur these costs to demonstrate environmental responsibility, but the direct financial benefits may not be immediately evident (Ganda, 2018). Legitimacy theory helps explain the observed results. This theory posits that companies seek to operate in ways that align with societal norms and expectations in order to maintain legitimacy and secure continued access to resources (Dowling & Pfeffer, 1975). In the context of green accounting, companies may implement such practices to gain social acceptance and comply with regulatory requirements. However, the financial burden of maintaining green accounting practices could significantly impact financial performance in the short term. Companies may prioritize meeting the expectations of stakeholders and society, even if these actions initially affect their profitability (Deegan, 2002). This finding contrasts with the research of Okafor (2018) and Longoni and Cagliano (2018) who found a positive relationship between green accounting and financial performance. Their studies suggested that companies adopting green accounting may gain competitive advantages, improve their reputation, and attract eco-conscious consumers, leading to increased financial performance over time (Okafor, 2018; Longoni & Cagliano, 2018). The discrepancy could arise from factors such as the time frame of the analysis, industry characteristics, or regional economic conditions. While green accounting may involve short-term costs, it could offer long-term benefits, such as enhanced brand loyalty, operational efficiencies, and risk reduction from environmental regulations. To conclude, although green accounting may have short-term financial drawbacks, its long-term benefits, such as improved reputation and sustainability, could ultimately enhance financial performance. Further research is needed to explore the conditions under which green accounting positively impacts financial performance, with a focus on stakeholder expectations and the need for companies to maintain their legitimacy within the market.

The Influence of Environmental Performance on Financial Performance

The results of hypothesis testing for the environmental performance variable show a T-statistics value of 1.743 (greater than 1.65) and a p-value of 0.041 (less than 0.05), indicating that environmental performance has an effect on financial performance. The positive path coefficient value suggests that environmental performance positively impacts financial performance. Therefore, Hypothesis 2, which posits that environmental performance has a positive effect on financial performance, is accepted. This positive relationship between environmental performance and financial performance can be explained through stakeholder theory and legitimacy theory. According to stakeholder theory, companies with good environmental performance are likely to strengthen relationships with stakeholders, such as investors, consumers, and regulatory bodies, which leads to increased investments, consumer loyalty, and higher sales, ultimately improving financial performance. Additionally, legitimacy theory suggests that companies align their practices with societal expectations to maintain legitimacy, and those with better environmental performance are perceived positively by society, which can enhance their reputation and financial success. These theories are supported by studies from Qi et al. (2014) Gholami et al. (2022) and Chen et al.(2023), which found a positive effect of environmental performance on financial performance. However, this result contrasts with the study by Meiyana and Aisyah (2019), which found no significant effect. This discrepancy could be attributed to differences in industry characteristics or regional factors. In conclusion, environmental performance not only benefits sustainability but also enhances financial outcomes by strengthening stakeholder relationships and improving legitimacy, highlighting the long-term financial advantages of sustainable practices. Companies with higher PROPER ratings, reflecting better environmental performance, tend to create a positive corporate image, receiving favorable responses from investors and stakeholders, which leads to long-term financial growth. The results of this hypothesis test further support stakeholder theory, which suggests that companies with good environmental performance reflect stakeholders' commitment to environmental conservation.

The Influence of Firm size on Financial Performance

The results of the hypothesis testing, which show a T-statistics value of 3.241 (greater than 1.65) and a p-value of 0.001 (less than 0.05), indicate that there is a relationship between green accounting and financial performance. The negative path coefficient suggests that the firm size variable has a negative effect on financial performance, leading to the rejection of Hypothesis 3, which posited that firm size has a positive effect on financial performance. This finding suggests that larger companies, as proxied by Ln(assets), do not always guarantee improved financial performance, and in some cases, their performance may even decline. One explanation for this result can be drawn from resource-based theory (Wernerfelt, 1984), which emphasizes that the mere size of a company does not necessarily translate into better performance. Large firms, while having more assets, may face challenges in efficiently managing these resources. Poor management of resources, including total assets, may lead

to inefficiencies that hinder the company's ability to generate higher financial returns. Additionally, large companies tend to incur higher operating costs, and when market demand decreases, the company may struggle to maintain profitability, which can ultimately affect financial performance. Furthermore, the principle of economies of scale, which typically suggests that larger firms benefit from cost advantages, may not always apply in practice. In some cases, larger companies may experience diseconomies of scale, where the complexity of managing a larger organization leads to inefficiencies, greater costs, and reduced profitability. This can be particularly true for companies that have not been able to effectively optimize their operations, despite their large size. The findings of this study are consistent with previous research conducted by Ahinful and Tauringana (2019) and Rahmatin and Kristanti (2020), which also found that firm size negatively affects financial performance. These studies suggest that large firms face certain challenges that may hinder their financial performance, such as high operating costs and difficulties in resource management. However, the results contrast with research by Meiyana and Aisyah (2019) and Pratiwi and Herawati (2022), who found that larger firm sizes were associated with better financial performance. These discrepancies could stem from differences in industry characteristics, market conditions, or the effectiveness of management practices in larger firms. In conclusion, while larger firms may have access to more resources, these resources do not always guarantee improved financial performance. Efficient resource management, operational efficiency, and the ability to adapt to market fluctuations play a critical role in determining a company's financial success. The negative relationship between firm size and financial performance found in this study underscores the importance of management practices and resource optimization in enhancing financial outcomes, regardless of company size.

CONCLUSIONS AND SUGGESTION

The results of the study indicate that green accounting has a negative effect on financial performance, suggesting that higher levels of green accounting may lead to lower financial performance. This may be due to the short-term costs associated with implementing green accounting practices, which could reduce immediate profitability. On the other hand, the environmental performance variable has a positive effect on financial performance, implying that companies with better environmental performance tend to experience improved financial outcomes. This relationship supports the idea that companies focusing on environmental sustainability can gain a competitive advantage and enhance their reputation, which, in turn, boosts financial performance. The firm size variable shows a negative effect on financial performance, indicating that larger companies may face challenges, such as higher operating costs and inefficiencies in managing resources, which could hinder their profitability. These findings address existing gaps in the literature by providing a clearer understanding of the mixed effects of green accounting and environmental performance on financial outcomes, especially considering firm size.

Further research is encouraged to expand the scope of this study by including a broader range of companies from different industries and regions. Future studies could incorporate additional proxies to measure financial performance, such as Return on Sales (ROS) and Return on Equity (ROE), to gain a more comprehensive view of the relationship between green accounting, environmental performance, and financial outcomes. It would also be valuable for researchers to distinguish between large and small companies to better understand how these factors influence financial performance in different organizational contexts. By addressing these gaps, future research could provide more nuanced insights into the impact of sustainability practices on financial performance across various sectors.

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