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# UNVEILING THE HIDDEN IMPACT OF GREEN ACCOUNTING ON CORPORATE SUCCESS

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**ABSTRACT**

Increasing stakeholder demand has driven firms to integrate environmental sustainability into their business strategies. Green accounting, encompassing environmental performance and green investment, has become a key approach to achieving these goals. This study examines the effect of green accounting on financial performance, with Corporate Social Responsibility (CSR) as a moderating variable. Multiple linear regression analysis was conducted using quantitative data from financial and sustainability reports of publicly traded Indonesian firms (2021–2023). The findings indicate that environmental performance significantly enhances financial performance by improving legitimacy and operational efficiency. However, green investment does not directly influence financial performance, nor does CSR moderate it. While CSR independently strengthens financial performance, its moderating role in environmental performance negatively impacts short-term financial results, suggesting that CSR costs may outweigh immediate benefits. The study underscores the need for firms to optimize cost management and effectively communicate sustainability efforts to enhance stakeholder trust and long-term financial performance.

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## INTRODUCTION

Financial performance is one of the most important measures of a business's general health and ability to accomplish its goals. Stakeholders utilize it to assess historical performance and forecast future outcomes (Barman, 2023; Hamdani et al., 2022). Profitability is frequently used to evaluate financial performance (Endiana et al., 2020). In an atmosphere of intense competition, strong financial results are essential for business continuity, attracting investors, and maintaining stakeholder trust (El Khoury et al., 2023; Kurznack & Timmer, 2019).

The harmony between environmental sustainability and financial performance has drawn more attention recently. Stakeholders expect companies to minimize

environmental impacts and contribute to sustainable development (Bosson, 2023; Wang et al., 2020). By incorporating environmental factors into business decision-making, green accounting has become a viable remedy (Rounaghi, 2019), including environmental performance evaluation and green investment allocation.

Assessing and improving environmental performance has become a key component of corporate strategies. Environmental performance measures a company's effectiveness in managing its ecological impact (Ramlawati et al., 2022; Wamba, 2022). The Public Disclosure Program for Environmental Compliance (PROPER) employs a color-coded rating system that enhances public trust and provides economic and productivity benefits (Directorate General of Pollution and Environmental Damage Control, 2020). Adequate environmental performance ratings enhance public trust and yield substantial economic and productivity advantages (Abban & Hasan, 2021).

Companies increasingly invest in green initiatives to enhance the synergy between financial performance and environmental sustainability to achieve long-term value. Green investment involves allocating corporate resources to environmentally sustainable projects that mitigate negative impacts and generate long-term economic benefits (Chen & Ma, 2021). These investments include green technologies (Guo et al., 2020), waste management (Ye et al., 2022), and emissions mitigation (Ren et al., 2022). Such efforts are expected to enhance financial performance and strengthen public trust (Falcone, 2020).

**Table 1. PROPER Rating, Green Investment Percentage, and ROA Ratio of ADRO, ITMG and PTBA 2021-2023**

| YEAR | ADRO | | | ITMG | | | PTBA | | |
|---|---|---|---|---|---|---|---|---|---|
| | PROPER | Green Investment | ROA | PROPER | Green Investment | ROA | PROPER | Green Investment | ROA |
| 2021 | GOLD | 0,29% | 13,56% | GREEN | 0,62% | 28,53% | GOLD | 0,35% | 22,25% |
| 2022 | GOLD (~) | 0,28% (↓) | 26,26% (↑) | GREEN (~) | 1,45% (↑) | 45,43% (↑) | GOLD (~) | 0,38% (↑) | 28,17% (↑) |
| 2023 | GOLD (~) | 0,39% (↑) | 17,71% (↓) | GREEN (~) | 3,35% (↑) | 22,84% (↓) | GOLD (~) | 0,65% (↑) | 16,23% (↓) |

Description: (↑) = 'increase', (↓) = 'decrease', (~) = 'same' or 'unchanged'
Source: Data processed from the Company's Financial Statements and Sustainability Report 2021-2023

The table highlights variations in environmental performance, green investment proportions, and financial outcomes across PT ADRO, PT ITMG, and PTBA. PT ADRO maintained its PROPER gold rating for the fifth consecutive year in 2023, with increased green investment but declining financial performance due to coal oversupply, which led to a 26% drop in selling prices (Mahadi, 2024), as noted by BRI Danareksa Sekuritas analyst Erindra Krisnawan. Similarly, PT ITMG experienced a rise in green investment but suffered a 58.3% decline in net profit due to a 41% drop in coal prices (Adventy, 2024), a trend explained by Sukarno Alatas, Head of Equity Research at Kiwoom Sekuritas Indonesia. PTBA also maintained its gold environmental rating, with increased investment in sustainable projects but declining financial returns, which energy economist Fahmy Radhi from UGM attributed to weakened export markets, lower commodity prices, and the global shift toward renewable energy in regions such as the U.S. and Europe (Kontan.co.id, 2023).

A management paradigm known as corporate social responsibility (CSR) incorporates social and environmental factors into stakeholder interactions and business

operations (Ali et al., 2020; Velte, 2022). By embedding sustainable practices into daily activities, CSR enhances corporate reputation (Sánchez-Torné et al., 2020) and strengthens relationships with stakeholders, including consumers, employees, and investors (Hadj, 2020). Consequently, CSR initiatives can improve financial performance (Barauskaite & Streimikiene, 2021).

Several studies have yielded inconclusive results. Dura & Suharsono (2022) found that green accounting, mainly through environmental performance, positively impacts financial success. Similarly, Endiana et al. (2020), and Hamdani et al. (2022) reported a positive association between environmental performance and financial performance. However, Yuniawati (2020) argued that environmental performance does not significantly affect financial success. Chen & Ma (2021) found that green investment enhances corporate financial performance, supported by Deb et al. (2020) and Indriastuti & Chariri (2021). In contrast, research by Khalid et al. (2023), Novia & Candy (2023), and Shabbir & Wisdom (2020) suggests that green investment does not influence financial performance.

Most research on green accounting and financial performance has been conducted in countries such as China (Chen & Ma, 2021; Khalid et al., 2023), Nigeria (Shabbir & Wisdom, 2020), Bangladesh (Deb et al., 2020), and Europe (Savić & Bonić, 2022). Additionally, prior studies often examine all publicly listed companies in a given country (Endiana et al., 2020; Novia & Candy, 2023) or focus on specific sectors, such as manufacturing (Dura & Suharsono, 2022; Hamdani et al., 2022; Indriastuti & Chariri, 2021), banking (Deb et al., 2020), or textiles (Yuniawati, 2020). In order to fill in research gaps, this study examines the connection between green accounting, especially environmental performance, green investment, and financial performance. To set it apart from earlier research, it also examines corporate social responsibility (CSR) as a moderating factor in the relationship between green accounting and financial performance. The main goal is to evaluate how Indonesian publicly traded companies' financial performance is affected by the implementation of green accounting.

It is essential to emphasize this study's unique contributions compared to previous studies to demonstrate its uniqueness. This study focuses on publicly traded companies in Indonesia, whereas previous research has looked chiefly at green accounting, environmental performance, and financial outcomes in places like China, Nigeria, and Europe. In the Indonesian context, approaches such as PROPER are used to assess corporate environmental performance, distinguishing them from standards applied in other countries. CSR in Indonesia has different implications than other nations, given that its regulations and incentives are still evolving (Jalal, 2023). This study takes a more comprehensive yet focused approach by using CSR as a moderating variable, in contrast to earlier research that either generalizes findings across all sectors or focuses on particular businesses like manufacturing or banking. Furthermore, it looks at the understudied relationship between financial success and environmental performance and CSR, as well as green investment and CSR. These features make the study stand out and provide a more thorough comprehension of the connection between business financial performance and green accounting practices in the Indonesian setting.

Legitimacy theory is a fundamental concept in organizational institutionalism, emphasizing the alignment between an organization's actions and prevailing social norms. A generalized conviction that an entity's acts are desirable, correct, or acceptable within a socially formed system of norms, values, and beliefs is known as legitimacy (Greenwood et al., 2017). From a strategic perspective, organizations seek to acquire, maintain, and restore legitimacy through various strategies, such as financial transparency

and corporate social responsibility initiatives. Furthermore, in the context of sustainability, legitimacy is increasingly associated with business practices that support environmental and social sustainability, which can enhance corporate reputation and competitiveness in the market (Deegan, 2022).

**Relationship between Environmental Performance and Financial Performance**

Environmental performance reflects a company's ability to preserve and improve environmental conditions (Kraus et al., 2020). According to legitimacy theory, companies seek societal acceptance by complying with environmental standards (Deegan, 2022; Greenwood et al., 2017). Strong environmental performance enhances corporate reputation, fosters public trust, and attracts stakeholders, improving financial outcomes (Deegan, 2022). Consumers and employees are increasingly attentive to corporate environmental commitments, making sustainability a competitive advantage.

Empirical studies support the positive impact of environmental performance on financial outcomes. Dura & Suharsono (2022) highlight that transparent environmental initiatives strengthen public loyalty and business performance. Endiana et al. (2020) and Hamdani et al. (2022) emphasize that incorporating sustainability practices can enhance operational efficiency and stakeholder confidence, which benefits corporate financial stability and profitability. Based on theoretical and empirical insights, the following hypothesis is proposed:

$H_1$ : Environmental performance has a positive effect on financial performance

**Relationship between Green Investment and Financial Performance**

Green investment involves allocating corporate resources to environmentally beneficial initiatives such as renewable energy, energy efficiency, and clean technology (He et al., 2019; Hesary & Yoshino, 2020). Legitimacy theory suggests that firms engage in green investment to maintain credibility with stakeholders and demonstrate commitment to sustainability (Deegan, 2022; Kraus et al., 2020). Such investments enhance corporate reputation, attract consumers and investors, and ensure compliance with evolving environmental regulations (Dechezleprêtre & Sato, 2017), mitigating legal risks and potential penalties (Magraw et al., 2019), and enhancing operational efficiency (Chen & Feng, 2019).

Research findings indicate that green investments contribute positively to financial performance. Deb et al. (2020) demonstrate that firms investing in sustainable initiatives experience improved financial performance and market valuation. Indriastuti & Chariri (2021) similarly find that environmental investment addresses ecological concerns and generates substantial financial benefits. Based on theoretical and empirical evidence, the following hypothesis is proposed:

$H_2$ : Green Investment has a positive effect on financial performance

**The Relationship between CSR Moderation and Financial Performance**

Corporate social responsibility (CSR) reflects a firm's commitment to sustainable business practices encompassing social, economic, and environmental considerations (Chandler, 2016; Gupta, 2022). Legitimacy theory suggests that companies integrate CSR into their strategies to align with stakeholder expectations and enhance corporate reputation (Deegan, 2022). CSR initiatives, such as community development and sustainable environmental management, strengthen public trust and stakeholder relationships (Chandler, 2016).

Empirical evidence supports CSR's role in improving financial performance. Yang et al. (2019) find that CSR initiatives positively impact corporate financial outcomes by fostering brand loyalty and competitive advantage. Cherian et al. (2019) further emphasize that CSR enhances stakeholder trust, securing long-term business sustainability. Additionally, CSR is expected to enhance the benefits of environmental performance and green investment, as firms with strong CSR commitments often achieve tremendous financial success. It is expected to strengthen the positive impact of environmental performance and green investment on financial performance. Based on theory and prior studies, the following hypothesis is proposed:

$H_3$ : CSR has a positive effect on financial performance

$H_{3a}$ : Environmental performance has a positive effect on financial performance when moderated by CSR

$H_{3b}$ : Green investment has a positive effect on financial performance when moderated by CSR

Below is the structure for this research.

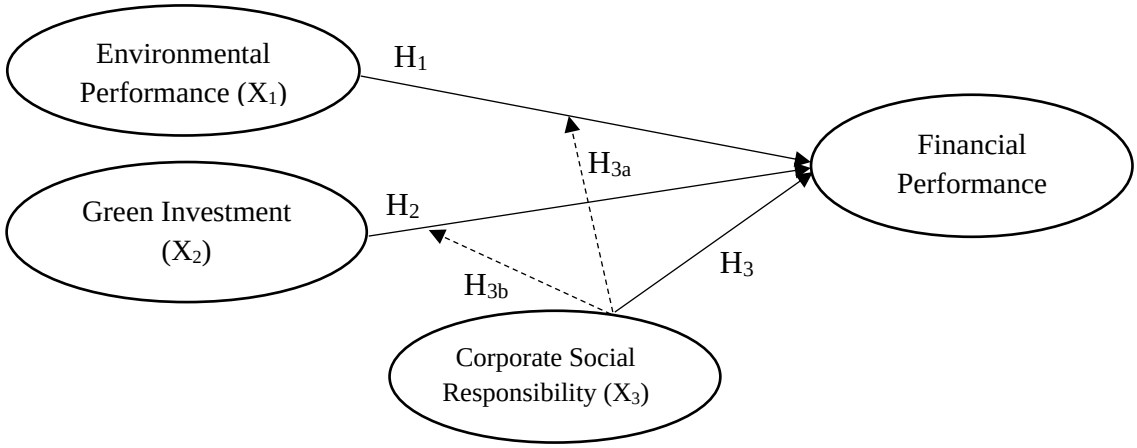


**Figure 1. Research Framework**
Source: Data Processed, 2024

## RESEARCH METHODS

Using secondary data from financial and sustainability reports of firms listed on the Indonesia Stock Exchange (IDX) for the years 2021–2023, this study uses a quantitative research methodology. Purposive sampling chooses the sample according to predetermined standards (table 2).

**Table 2. Criteria for Research Samples**

| CRITERIA | TOTAL |
|---|---|
| Companies listed on IDX | 927 |
| Companies under special monitoring status | (229) |
| Companies newly listed since 2021 | (143) |
| Companies without sustainability reports (2021–2023) | (94) |
| Companies not participating in PROPER (2021–2023) | (347) |
| Companies not using the GRI Index (2021–2023) | (61) |
| Companies without environmental cost information (2021–2023) | (19) |
| Final samples were observed over 3 years. | 102 |

Source: Data Processed, 2024

This research includes three separate types of variables: dependent, independent, and moderating factors. The dependent variable in this study is the financial performance of corporations as determined by Return on Assets (ROA). ROA is selected because it shows how well a company uses its resources to produce profits (Dura & Suharsono, 2022; Endiana et al., 2020; Indriastuti & Chariri, 2021). ROA is calculated as follows:

$$\text{ROA} = \frac{\text{Net Income}}{\text{Total Assets}}$$

The independent variables include environmental performance and green investment. The Ministry of Environment's PROPER rating, which ranges from 1 (black) to 5 (gold), is used to evaluate environmental performance (Dura & Suharsono, 2022; Endiana et al., 2020; Hamdani et al., 2022).

A company's commitment to sustainability is indicated by green investment, which is calculated as the ratio of environmental costs to total assets (Chen & Ma, 2021; Khalid et al., 2023; Zeng et al., 2020). The cost of investing or allocating business funds for the environment is divided by the organization's total assets to calculate green investment.

$$\text{GI} = \frac{\text{Environmental Costs}}{\text{Total Assets}}$$

The moderating variable in this study is Corporate Social Responsibility (CSR), evaluated using the Global Reporting Initiative (GRI) Standard index. The CSR score is the ratio of disclosures aligned with GRI indicators to the total number of GRI indicators (Global Reporting Initiative, 2024; Hamdani et al., 2022).

$$\text{CSR} = \frac{\text{Number of disclosures that comply with GRI Standards}}{\text{Total GRI Standard Indicators}}$$

Moderated Regression Analysis (MRA) in EViews 9 is used in this work to do panel data regression analysis. Diagnostic tests, such as multicollinearity tests and model selection utilizing the Chow, Hausman, and Lagrange multiplier tests to identify the best model, are carried out before regression. The following regression models were employed in this study:

Without the moderating variable :

$$\text{ROA} = \beta_0 + \beta_1\text{PRO} + \beta_2\text{GI} + \beta_3\text{CSR} + \varepsilon$$

(Description: ROA = Return on Asset; $\beta_0$ = Constant; $\beta_{1-5}$= Regression Coefficient; PRO = Environmental Performance; GI = Green Investment; CSR = Corporate Social Responsibility; $\varepsilon$ = Error)

The hypothesis is accepted if the regression coefficient is positive and the significance value (p-value) is less than 0.05.

With the moderating variable :

$$\text{ROA} = \beta_0 + \beta_1\text{PRO} + \beta_2\text{GI} + \beta_3\text{CSR} + \beta_4\text{PRO.CSR} + \beta_5\text{GI.CSR} + \varepsilon$$

The moderating hypothesis is supported if the regression coefficient after moderation is higher than before and the significance value (p-value) is less than 0.05.

## RESULTS AND DISCUSSION

Accurate regression modeling requires that research data conform to classical assumptions. A multicollinearity test is essential for panel data, while other traditional assumption tests are unnecessary. The results indicate that the correlation coefficient for

each variable does not exceed 0.85, suggesting no significant multicollinearity. Regression testing can be carried out since multicollinearity problems are not present. The best regression model is then identified by performing a model estimation test. According to the test findings, the Common Effect Model (CEM) is the best.

**Table 3. Common Effect Model**

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | -0.5380 | 0.1840 | -2.9246 | 0.0043 |
| PRO | 0.1658 | 0.0541 | 3.0631 | 0.0028 |
| GI | 2.7981 | 13.4017 | 0.2088 | 0.8351 |
| CSR | 0.7380 | 0.2597 | 2.8416 | 0.0055 |
| PRO*CSR | -0.1922 | 0.0725 | -2.6506 | 0.0094 |
| GI*CSR | 0.6619 | 14.8405 | 0.0446 | 0.9645 |

Source: Data Processed by Eviews9, 2024

**The Impact of Environmental Performance on Financial Performance**

With a regression coefficient of 0.1658 and a p-value of 0.0028 (<0.05), environmental performance (PRO) has a substantial impact on financial performance, confirming H1. This result is consistent with legitimacy theory, which holds that companies that follow environmental laws as determined by PROPER improve their reputation, build stakeholder trust, and eventually boost their bottom line. The average PROPER rating of 3.75 (blue category) indicates high compliance with environmental standards (Directorate General of Pollution and Environmental Damage Control, 2020). Companies with superior PROPER ratings tend to adopt more sustainable operational practices, reducing environmental risks and enhancing cost efficiency, thereby strengthening financial performance.

These results are consistent with prior research. Dura & Suharsono (2022) and Endiana et al. (2020) highlight the role of green accounting in enhancing financial performance by improving operational efficiency and stakeholder confidence. Hamdani et al. (2022) and Nianty et al. (2023) further demonstrate that firms with strong environmental credentials attract investment and achieve excellent financial stability. Additionally, Dita & Ervina (2021) emphasize that a positive environmental image enhances market competitiveness and improves financial performance.

**The Impact of Green Investment on Financial Performance**

Green investment (GI) does not exhibit a significant impact on financial performance, as indicated by a p-value of 0.8351 (>0.05) and a regression coefficient of 2.7981, leading to the rejection of H2. While green investment fosters corporate credibility and long-term sustainability, its financial benefits may not be immediately realized, particularly in markets with limited awareness of environmental initiatives. The high initial costs of green investments may temporarily constrain financial performance before yielding long-term advantages. Furthermore, sustainability reports, which serve as a primary disclosure tool for green investment, remain underutilized in Indonesia, limiting their influence on investor decision-making (Jalal, 2023).

Existing literature provides mixed evidence regarding the financial effects of green investment. Khalid et al. (2023) argue that the profitability of green investment varies across industries, while Novia & Candy (2023) suggest that investors often prioritize short-term financial returns over environmental commitments. Shabbir & Wisdom (2020) further indicate that external green initiatives provide limited direct financial benefits. However, Indriastuti & Chariri (2021) and Yuniawati (2020) assert that long-term

legitimacy gains from sustainable investment can enhance financial resilience and stakeholder confidence.

**The Impact of Corporate Social Responsibility on Financial Performance**

Corporate social responsibility (CSR) has a significant positive effect on financial performance, with a p-value of 0.0055 (<0.05) and a regression coefficient of 0.7380, confirming H3. CSR initiatives enhance corporate legitimacy by fostering stakeholder trust and improving financial outcomes. Companies that actively engage in CSR build stronger relationships with employees, customers, and investors, which can translate into increased productivity, brand loyalty, and investment attractiveness.

These findings align with prior studies. Kunz (2020) and Zambrano et al. (2022) suggest that CSR enhances team member motivation and operational efficiency, ultimately contributing to superior financial performance. Similarly, Cherian et al. (2019) and Yang et al. (2019) find that firms with strong CSR commitments experience improved financial stability. However, Hamdani et al. (2022) and Sharma et al. (2021) provide contrasting perspectives, arguing that the financial benefits of CSR may depend on firm-specific factors such as industry characteristics and regulatory environments.

**The Impact of Environmental Performance on Financial Performance Moderated by CSR**

CSR significantly moderates the relationship between environmental and financial performance but with a negative effect ($p = 0.0094$, $\beta = -0.1922$), leading to rejecting H3a. While legitimacy theory suggests that environmental performance and CSR should collectively enhance financial outcomes, this study indicates that excessive emphasis on both dimensions may impose financial strain. Firms that achieve high PROPER ratings while simultaneously committing to extensive CSR initiatives may face increased operational costs, diverting resources from core business activities and reducing financial efficiency. This finding underscores the importance of balancing environmental and social commitments with financial objectives to prevent excessive financial burdens.

**The Impact of Green Investment on Financial Performance Moderated by CSR**

CSR does not significantly moderate the relationship between green investment and financial performance, as indicated by a p-value of 0.9645 and a regression coefficient of 0.6619, leading to the rejection H3b. Although green investment and CSR collectively enhance corporate legitimacy, their financial benefits may take time due to high implementation costs and slow stakeholder adaptation. In emerging markets like Indonesia, firms may struggle to translate sustainability initiatives into financial gains due to limited regulatory incentives and investor engagement. Companies should align their sustainability efforts with strategic financial planning to maximize financial performance, ensuring that CSR and green investments generate long-term value rather than short-term financial constraints.

These findings highlight the need for firms to integrate environmental and CSR initiatives into a comprehensive financial strategy to maximize long-term value creation. In Indonesia and similar emerging economies, sustainability efforts must be balanced with financial objectives to avoid excessive cost burdens. Policymakers should enhance incentives for green investment and CSR engagement to encourage broader adoption of sustainability practices. Additionally, investors should consider long-term financial stability when assessing firms with strong environmental and social commitments rather than focusing solely on short-term financial performance.

**Table 4. Coefficient of Determination of Regression Equation**

| | | | |
|---|---|---|---|
| **Before Moderation** | 0.0931 | **After Moderation** | 0.1431 |

Source: Data Processed by Eviews9, 2024

The initial regression model indicates that environmental performance, green investment, and CSR explain 9.31% of the variation in financial performance, with the remaining 90.69% influenced by other factors. These findings align with legitimacy theory (Deegan, 2022), which suggests that companies engaging in sustainability practices enhance their legitimacy, leading to financial benefits. However, the relatively low explanatory power indicates that additional factors, such as industry characteristics and macroeconomic conditions, may also play a significant role (Hamdani et al., 2022).

After incorporating CSR as a moderating variable, the adjusted R-squared increases to 14.31%, signifying a 5.00% improvement in the model's explanatory power. This result supports the argument that CSR enhances corporate reputation and stakeholder trust (Awaysheh et al., 2020; Carroll, 2021), strengthening the link between green accounting practices and financial performance. Nevertheless, the findings also highlight the potential cost implications of CSR initiatives, which may reduce short-term financial gains (Barauskaite & Streimikiene, 2021). These results emphasize the need for firms to balance sustainability efforts with financial objectives to maximize long-term value creation.

## CONCLUSION

Using CSR as a moderating variable, this study examines how financial performance is affected by green accounting, which focuses on environmental performance and green investment. The findings indicate that environmental performance significantly enhances financial performance by strengthening business reputation and stakeholder trust, aligning with legitimacy theory. However, green investment does not exhibit a direct or substantial effect, likely due to delayed financial returns and high initial costs. While CSR contributes positively to financial performance, its moderating effect on the environmental performance-financial performance relationship is negative, suggesting that the financial burden of CSR initiatives may outweigh their short-term benefits.

There are numerous theoretical and practical implications to the topic. Theoretically, it reinforces legitimacy theory by demonstrating that firms engaging in environmental initiatives gain stakeholder trust, which improves financial outcomes. However, the findings suggest that excessive CSR commitments can impose financial constraints, necessitating a balanced approach. Corporate managers should integrate environmental sustainability initiatives strategically to maximize financial benefits while mitigating cost pressures. Firms should ensure CSR expenditures align with long-term value creation rather than short-term compliance or reputational gains. Additionally, policymakers should design regulatory frameworks that incentivize sustainable practices without imposing excessive financial burdens on firms.

Future studies should expand the analysis by including larger industry samples and longer durations to understand better the long-term impacts of green accounting on financial performance. The study's applicability to other areas with different legal and economic environments may be limited by its concentration on publicly traded companies in Indonesia. Additionally, the model's increased explanatory ability is seen by the rise in

R-squared when the moderating variable was added. Future research could include different stand-ins for green investment, environmental performance, or corporate social responsibility to improve the model and offer a more profound understanding of the financial effects of sustainability measures.

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