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The Impact of Green Accounting and Environmental Performance on Financial Performance of Indonesian Textile Companies

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Abstract

This research investigates how green accounting practices and environmental performance influence financial outcomes in textile and apparel firms listed on the Indonesia Stock Exchange during 2020-2022. Employing purposive sampling, the study analyzes 13 companies over three years using IBM SPSS Statistics 26. Results demonstrate that green accounting significantly enhances financial performance ($t=5.019$, $p<0.05$), while environmental performance also shows positive influence ($t=2.728$, $p<0.05$). The simultaneous effect of both variables proves significant ($F=14.217$, $p<0.05$), with a combined explanatory power of 41%. These findings suggest that integrating environmental considerations into accounting practices and improving environmental management create synergistic effects that enhance profitability. Companies adopting sustainable business practices can achieve dual objectives of environmental responsibility and improved financial returns.

Keywords: Green Accounting, Environmental Performance, Financial Performance, Sustainability, Textile Industry

Introduction

Contemporary industrial development presents critical environmental challenges, particularly in emerging economies like Indonesia. The rapid expansion of manufacturing sectors in urban areas has generated significant environmental degradation, including water contamination, atmospheric pollution, and climate change acceleration (Agustia et al., 2020). Textile and apparel industries, characterized by resource-intensive operations and substantial waste generation, face increasing pressure to adopt environmentally responsible practices (Latan et al., 2021).

Green accounting represents an innovative approach that integrates environmental costs and benefits into corporate financial reporting systems (Burhan & Rahmanti, 2012). This accounting methodology enables companies to quantify environmental impacts, track sustainability investments, and make informed decisions that balance profitability with ecological stewardship (Suttipun, 2021). The adoption of green accounting practices has become increasingly relevant as stakeholders demand greater transparency regarding corporate environmental performance (Damayanthi & Wirakusuma, 2022).

Environmental performance assessment, particularly through Indonesia's PROPER (Corporate Performance Rating Program in Environmental Management), provides standardized metrics for evaluating corporate environmental management (Ministry of Environment and Forestry, 2020). This color-coded rating system, ranging from Gold (exemplary) to Black (poor), enables stakeholders to assess environmental compliance and performance systematically (Simbolon et al., 2021).

The relationship between environmental practices and financial outcomes has attracted considerable academic attention. While some studies demonstrate positive correlations between sustainability initiatives and profitability (Agustia et al., 2020; Latan et al., 2021), others report mixed or negative associations (Endiana et al., 2020). This research addresses these contradictions by examining the textile sector specifically, where environmental pressures are particularly acute.

Financial performance measurement through profitability ratios, specifically Net Profit Margin (NPM), provides

quantifiable indicators of corporate efficiency in converting revenue into profit (Meidona & Sari, 2021). Understanding how green accounting and environmental performance influence these metrics offers valuable insights for corporate decision-making and policy formulation.

This study contributes to existing literature by examining the simultaneous effects of green accounting and environmental performance on financial outcomes within Indonesia's textile industry. The findings provide empirical evidence to guide corporate sustainability strategies and inform regulatory frameworks.

Literature Review

Theoretical Foundation

Legitimacy Theory posits that organizations continuously seek to ensure their operations appear legitimate within socially constructed norms and expectations (Deegan, 2019). Companies adopt environmental reporting practices to demonstrate alignment with societal values regarding environmental protection, thereby maintaining their social license to operate (Agustia et al., 2020). Green accounting serves as a legitimization tool, signaling corporate commitment to environmental responsibility.

Stakeholder Theory emphasizes that organizations must address the interests of multiple stakeholders, not merely shareholders (Freeman et al., 2020). Environmental performance and transparent green accounting practices satisfy diverse stakeholder demands, including investors, consumers, regulators, and communities (Latan et al., 2021). Companies demonstrating superior environmental stewardship can enhance stakeholder relationships, potentially improving financial performance through enhanced reputation, customer loyalty, and reduced regulatory risks.

Green Accounting

Green accounting, or environmental accounting, systematically identifies, measures, and communicates environmental costs and benefits within financial reporting frameworks (Suttipun, 2021). This practice extends traditional accounting by incorporating environmental externalities, enabling companies to assess the financial implications of environmental management decisions (Damayanthi & Wirakusuma, 2022).

Key components include environmental cost identification, environmental liability recognition, natural resource valuation, and environmental performance disclosure (Burhan & Rahmanti, 2012). By quantifying environmental investments and savings from efficiency improvements, green accounting provides decision-relevant information for strategic planning (Agustia et al., 2020).

Implementation challenges include measurement difficulties, lack of standardized methodologies, and limited regulatory requirements (Endiana et al., 2020). However, voluntary adoption demonstrates increasing corporate recognition of environmental accounting's strategic value (Suttipun, 2021).

Environmental Performance

Environmental performance reflects organizational effectiveness in managing environmental impacts from operational activities (Simbolon et al., 2021). In Indonesia, PROPER provides standardized environmental performance assessment across five categories: Gold (beyond compliance with excellent environmental management), Green (beyond compliance), Blue (compliant), Red (non-compliant), and Black (severely non-compliant) (Ministry of Environment and Forestry, 2020).

Superior environmental performance generates multiple benefits, including enhanced corporate reputation, improved stakeholder relations, reduced operational costs through resource efficiency, and decreased regulatory risks (Latan et al., 2021). Companies achieving higher PROPER ratings demonstrate stronger environmental commitment, potentially attracting environmentally conscious investors and consumers (Simbolon et al., 2021).

Financial Performance

Financial performance measurement encompasses various metrics evaluating corporate profitability, efficiency, and value creation (Meidona & Sari, 2021). Net Profit Margin (NPM), calculated as net income divided by revenue, indicates how effectively companies convert sales into profit after accounting for all expenses (Putra &

Wirakusuma, 2020).
Profitability ratios serve as critical indicators for stakeholders assessing corporate financial health and management effectiveness (Agustia et al., 2020). Higher profitability enhances shareholder value, supports business expansion, and provides resources for sustainability investments (Latan et al., 2021).

Hypothesis Development

H1: Green Accounting Positively Influences Financial Performance

Green accounting implementation enables companies to identify cost-saving opportunities through waste reduction, energy efficiency, and resource optimization (Suttipun, 2021). By systematically tracking environmental costs, companies can make informed decisions that simultaneously reduce environmental impacts and operational expenses (Damayanthi & Wirakusuma, 2022). Enhanced environmental disclosure through green accounting may also improve corporate reputation, attracting environmentally conscious investors and customers, thereby supporting financial performance (Agustia et al., 2020).

H2: Environmental Performance Positively Influences Financial Performance

Superior environmental performance signals effective operational management and regulatory compliance, reducing legal risks and potential penalties (Latan et al., 2021). Companies with strong environmental ratings often experience enhanced brand reputation and customer loyalty, particularly in environmentally sensitive industries (Simbolon et al., 2021). Resource efficiency gains from improved environmental management can reduce operational costs, contributing to profitability enhancement (Endiana et al., 2020).

H3: Green Accounting and Environmental Performance Simultaneously Influence Financial Performance

The combined implementation of green accounting and improved environmental performance creates synergistic effects (Agustia et al., 2020). Green accounting provides the information infrastructure for identifying and implementing environmental improvements, while enhanced environmental performance validates the effectiveness of these initiatives (Suttipun, 2021). Together, these practices strengthen corporate sustainability positioning, potentially generating superior financial outcomes through operational efficiency, enhanced reputation, and stakeholder confidence (Latan et al., 2021).

Research Methodology

Research Design

This study employs a quantitative research design using secondary data analysis. The research adopts a causal-explanatory approach to examine relationships between green accounting, environmental performance, and financial performance in Indonesian textile companies.

Population and Sample

The research population comprises all textile and apparel companies listed on the Indonesia Stock Exchange during 2020-2023. Using purposive sampling methodology, companies were selected based on the following criteria:

1. Listed continuously on the Indonesia Stock Exchange throughout 2020-2022
2. Published complete annual financial reports during the observation period
3. Disclosed environmental information or participated in PROPER evaluation
4. Presented complete data for all research variables

From the population of 21 textile and apparel companies, 13 companies met the selection criteria, generating 39 observations over the three-year period (2020-2022).

Variables and Measurement

Dependent Variable: Financial Performance

Financial performance is measured using Net Profit Margin (NPM), calculated as:
NPM = (Net Income / Revenue) × 100%
This ratio indicates the percentage of revenue converted into net profit, reflecting overall operational efficiency and profitability (Meidona & Sari, 2021).

Independent Variable 1: Green Accounting

Green accounting implementation is measured through environmental cost disclosure ratio:
Green Accounting = Environmental Cost Disclosure / Total Operational Costs
This metric reflects the extent of environmental cost recognition and transparency in financial reporting (Damayanthi & Wirakusuma, 2022).

Independent Variable 2: Environmental Performance
Environmental performance is assessed using PROPER ratings, converted to numerical scores:

- Gold = 5
- Green = 4
- Blue = 3
- Red = 2
- Black = 1

Higher scores indicate superior environmental management performance (Simbolon et al., 2021).

Data Collection
Secondary data were collected from:

1. Annual financial reports published on the Indonesia Stock Exchange website
2. PROPER rating announcements from the Ministry of Environment and Forestry
3. Company sustainability reports and disclosures

Data Analysis Technique
Data analysis was conducted using IBM SPSS Statistics 26, employing multiple linear regression analysis. The analytical procedure included:
Classical Assumption Tests:

1. Normality Test: Kolmogorov-Smirnov test to assess normal distribution
2. Multicollinearity Test: Variance Inflation Factor (VIF) and tolerance values
3. Heteroscedasticity Test: Glejser test and scatterplot examination

Hypothesis Testing:

1. Partial Test (t-test): Examining individual independent variable effects
2. Simultaneous Test (F-test): Examining combined independent variable effects
3. Coefficient of Determination (R^2): Measuring explanatory power

Regression Model
The multiple linear regression model is specified as:
$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \varepsilon$
Where:

- Y = Financial Performance (NPM)
- α = Constant
- β_1, β_2 = Regression coefficients
- X_1 = Green Accounting
- X_2 = Environmental Performance
- ε = Error term

4. Results and Discussion
4.1 Descriptive Statistics
The descriptive analysis provides an overview of the research variables' characteristics across 39 observations.

Table 1: Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Green Accounting	39	0.000001	0.904862	0.16043145	0.248103648
Environmental Performance	39	3.000000	5.000000	3.64102564	0.668351447
Financial Performance	39	0.002322	5.143525	1.04538681	1.677159467

The descriptive statistics reveal that green accounting disclosure among sampled companies remains relatively low (mean = 0.160), indicating limited environmental cost transparency in financial reporting. Environmental performance shows moderate ratings (mean = 3.641), suggesting most companies achieve compliance-level performance (Blue rating) with some exceeding minimum standards. Financial performance exhibits substantial variation (SD = 1.677), reflecting diverse profitability levels across the industry.

Multiple Linear Regression Analysis

Table 5: Regression Coefficients

Variable	Unstandardized Coefficient (B)	Std. Error	t-value	Sig.
Constant	-2.809	0.581	-4.836	0.000
Green Accounting (X_1)	4.306	0.858	5.019	0.000
Environmental Performance (X_2)	0.869	0.318	2.728	0.010

The regression equation is:

$Y = -2.809 + 4.306X_1 + 0.869X_2 + \varepsilon$

Interpretation:

1. Constant (-2.809): When green accounting and environmental performance equal zero, financial performance would theoretically be -2.809%. This negative constant suggests that baseline profitability without environmental considerations would be unfavorable, highlighting the importance of environmental initiatives.
2. Green Accounting Coefficient (4.306): Each one-unit increase in green accounting disclosure corresponds to a 4.306 percentage point increase in NPM, holding environmental performance constant. This substantial positive effect indicates that environmental cost transparency significantly enhances profitability.

   Environmental Performance Coefficient (0.869): Each one-point improvement in PROPER rating associates with a 0.869 percentage point increase in NPM, holding green accounting constant. This positive relationship confirms that superior environmental management contributes to financial success.

Hypothesis Testing

Partial Test (t-test)

Table 6: t-test Results

Hypothesis	Variable	t-value	t-table	Sig.	Decision
H_1	Green Accounting	5.019	2.022	0.000	Accepted
H_2	Environmental Performance	2.728	2.022	0.010	Accepted

H_1: Green Accounting Positively Influences Financial Performance

The t-statistic for green accounting (5.019) significantly exceeds the critical value (2.022) with $p < 0.001$, providing strong evidence supporting H_1. This finding indicates that green accounting practices substantially enhance financial performance in Indonesian textile companies. The result aligns with signaling theory, suggesting that environmental cost disclosure signals superior management quality and operational efficiency to stakeholders (Agustia et al., 2020).

H_2: Environmental Performance Positively Influences Financial Performance

Environmental performance demonstrates a significant positive effect (t = 2.728, p = 0.010), supporting H_2. Companies achieving higher PROPER ratings exhibit superior profitability, consistent with resource-based view theory suggesting that environmental capabilities constitute valuable organizational resources (Latan et al., 2021). Enhanced environmental performance reduces regulatory risks, improves operational efficiency, and strengthens corporate reputation.

Simultaneous Test (F-test)

Table 7: F-test Results (ANOVA)

Source	Sum of Squares	df	Mean Square	F-value	Sig.
Regression	46.823	2	23.412	14.217	0.000
Residual	59.274	36	1.647		
Total	106.097	38			

H_3: Green Accounting and Environmental Performance Simultaneously Influence Financial Performance

The F-statistic (14.217) substantially exceeds the critical value (approximately 3.26 for $df_1=2$, $df_2=36$) with $p < 0.001$, strongly supporting H_3. This finding confirms that green accounting and environmental performance jointly and significantly influence financial performance. The simultaneous effect demonstrates synergistic interactions between environmental transparency and operational environmental management.

Coefficient of Determination

Table 8: Model Summary

R	R^2	Adjusted R^2	Std. Error of Estimate
0.664	0.441	0.410	1.28343

The coefficient of determination (R^2 = 0.441, Adjusted R^2 = 0.410) indicates that green accounting and environmental performance collectively explain 41% of financial performance variation. The remaining 59% results from factors beyond this model, including market conditions, operational efficiency, innovation capabilities, and competitive dynamics. The adjusted R^2 value accounts for the number of predictors, providing a more conservative estimate suitable for generalization.

Discussion

The Influence of Green Accounting on Financial Performance

The strong positive relationship between green accounting and financial performance (β = 4.306, $p < 0.001$) provides empirical support for the value relevance of environmental accounting practices. This finding aligns with recent research demonstrating that environmental cost disclosure enhances corporate financial outcomes (Suttipun, 2021; Damayanthi & Wirakusuma, 2022).

Several mechanisms explain this relationship. First, green accounting enables systematic identification of environmental costs, facilitating targeted cost reduction initiatives through waste minimization and resource efficiency (Agustia et al., 2020). Second, environmental transparency signals management quality and corporate governance effectiveness to investors, potentially reducing capital costs (Latan et al., 2021). Third, environmental disclosure strengthens stakeholder relationships, enhancing corporate reputation and customer loyalty (Simbolon et al., 2021).

The textile industry's resource-intensive operations create substantial opportunities for environmental cost management. Companies implementing green accounting can identify significant savings through water conservation, energy efficiency, and waste reduction. These operational improvements directly enhance profitability while simultaneously reducing environmental impacts (Endiana et al., 2020).

This finding contrasts with some studies reporting negative or insignificant relationships between environmental practices and financial performance (Riyadh, 2020). Such discrepancies may reflect industry-specific differences, measurement variations, or temporal factors. In the textile sector, where environmental pressures are particularly acute, green accounting may generate more substantial competitive advantages compared to less environmentally

sensitive industries.

The Impact of Environmental Performance on Financial Performance

Environmental performance's positive influence on financial outcomes (β = 0.869, p = 0.010) confirms that superior environmental management contributes to corporate profitability. This result supports stakeholder theory, suggesting that meeting environmental expectations generates tangible business benefits (Freeman et al., 2020).

Companies achieving higher PROPER ratings demonstrate effective environmental management systems, regulatory compliance, and proactive sustainability initiatives. These capabilities yield multiple financial benefits. Resource efficiency improvements reduce input costs and waste disposal expenses (Latan et al., 2021). Enhanced environmental reputation attracts environmentally conscious consumers and investors, potentially commanding premium pricing and favorable financing terms (Simbolon et al., 2021).

Moreover, superior environmental performance mitigates regulatory and legal risks, avoiding penalties and operational disruptions (Agustia et al., 2020). In an increasingly stringent regulatory environment, companies with established environmental management capabilities possess competitive advantages over less prepared competitors.

The textile industry faces particular environmental scrutiny due to water pollution, chemical usage, and energy consumption. Companies demonstrating environmental excellence can differentiate themselves in global markets increasingly demanding sustainable production practices (Endiana et al., 2020). International brands increasingly require suppliers to meet environmental standards, making PROPER ratings valuable market access credentials.

4.5.3 The Simultaneous Influence of Green Accounting and Environmental Performance

The significant simultaneous effect ($F = 14.217$, $p < 0.001$) demonstrates that green accounting and environmental performance create synergistic value when implemented together. This finding extends existing literature by demonstrating complementarity between environmental transparency and operational environmental management.

Green accounting provides the information infrastructure supporting effective environmental performance management. By quantifying environmental costs and tracking sustainability investments, green accounting enables evidence-based decision-making regarding environmental initiatives (Suttipun, 2021). Conversely, environmental performance improvements generate tangible results that validate green accounting investments, creating positive feedback loops reinforcing both practices.

The combined implementation signals comprehensive corporate commitment to sustainability, potentially generating stronger stakeholder responses than either practice independently. Investors increasingly recognize that companies integrating environmental considerations into financial reporting and operations demonstrate strategic foresight and management capability (Agustia et al., 2020).

The R^2 value (0.441) indicates substantial explanatory power while acknowledging that financial performance depends on multiple factors. The 59% unexplained variation likely reflects traditional financial management, market dynamics, innovation, and competitive positioning. This finding suggests that environmental practices constitute important but not exclusive determinants of financial success.

Practical Implications

These findings offer several practical implications for corporate management, policymakers, and investors:

For Corporate Management:

1. Implement comprehensive green accounting systems to identify environmental cost-saving opportunities
2. Pursue higher PROPER ratings through systematic environmental management improvements
3. Integrate environmental considerations into strategic planning and performance evaluation
4. Communicate environmental initiatives transparently to strengthen stakeholder relationships

For Policymakers:

1. Strengthen PROPER program incentives to encourage corporate participation
2. Develop standardized green accounting guidelines to facilitate implementation
3. Consider environmental performance in corporate tax incentives and procurement decisions
4. Enhance environmental disclosure requirements in financial reporting regulations

For Investors:

1. Incorporate environmental performance metrics into investment analysis
2. Recognize green accounting practices as indicators of management quality
3. Support companies demonstrating integrated sustainability strategies
4. Engage with corporate management on environmental transparency and performance

Research Limitations

This study acknowledges several limitations affecting result interpretation and generalization:

1. Sample Size: The relatively small sample (13 companies, 39 observations) limits statistical power and generalizability. Future research should examine larger samples across multiple industries.
2. Measurement Challenges: Green accounting measurement relies on disclosed environmental costs, potentially understating actual implementation. Environmental performance assessment depends on PROPER ratings, which may not capture all environmental management dimensions.
3. Temporal Scope: The three-year observation period may not capture long-term effects of environmental practices. Longitudinal studies examining extended periods could reveal dynamic relationships.
4. Causality: While regression analysis identifies associations, establishing definitive causality requires additional methodological approaches, such as instrumental variables or natural experiments.
5. Omitted Variables: The model explains 41% of financial performance variation, indicating other important factors remain unexamined. Future research should incorporate additional variables, including innovation, market competition, and organizational capabilities.
6. Industry Specificity: Findings specific to textile companies may not generalize to other industries with different environmental pressures and operational characteristics.

Conclusion

This research provides empirical evidence regarding the relationships between green accounting, environmental performance, and financial performance in Indonesian textile companies. Three primary conclusions emerge from the analysis:

First, green accounting significantly and positively influences financial performance ($\beta = 4.306$, $p < 0.001$). Companies implementing environmental cost disclosure and transparency demonstrate superior profitability, supporting the value relevance of green accounting practices. This finding suggests that environmental accounting extends beyond regulatory compliance to create strategic competitive advantages through cost management, stakeholder confidence, and reputational enhancement.

Second, environmental performance exerts a positive and significant effect on financial outcomes ($\beta = 0.869$, $p = 0.010$). Companies achieving higher PROPER ratings exhibit stronger financial performance, confirming that effective environmental management contributes to business success. Superior environmental performance generates financial benefits through operational efficiency, regulatory compliance, risk mitigation, and enhanced market positioning.

Third, green accounting and environmental performance simultaneously and significantly influence financial performance ($F = 14.217$, $p < 0.001$, $R^2 = 0.441$). The combined implementation creates synergistic effects exceeding individual contributions, demonstrating complementarity between environmental transparency and operational environmental management. This finding highlights the value of integrated sustainability strategies incorporating both disclosure and performance dimensions.

These results contribute to sustainability accounting literature by providing sector-specific evidence from an emerging economy context. The findings support theoretical perspectives emphasizing stakeholder engagement and legitimacy, while offering practical guidance for corporate sustainability strategy development.

Recommendations

Based on research findings, the following recommendations are proposed:

For Textile Companies:

1. Develop comprehensive green accounting systems incorporating environmental cost identification,

measurement, and reporting
2. Establish environmental management systems targeting PROPER rating improvements
3. Integrate sustainability considerations into strategic planning, budgeting, and performance evaluation
4. Enhance environmental transparency through expanded disclosure in financial and sustainability reports
5. Invest in employee training on environmental management and sustainable operations

For Industry Associations:
1. Develop industry-specific green accounting guidelines and best practices
2. Facilitate knowledge sharing regarding environmental management innovations
3. Advocate for supportive policies encouraging sustainable business practices
4. Establish industry benchmarks for environmental performance excellence

For Regulators and Policymakers:
1. Strengthen environmental disclosure requirements in financial reporting standards
2. Enhance PROPER program incentives through tax benefits, preferential financing, or public recognition
3. Develop capacity-building programs supporting green accounting implementation
4. Consider environmental performance in government procurement decisions

For Investors and Financial Institutions:
1. Incorporate environmental metrics into investment analysis and credit assessments
2. Develop green financing products incentivizing environmental improvements
3. Engage with portfolio companies on environmental transparency and performance
4. Support research advancing understanding of sustainability-financial performance linkages

For Future Research:
1. Expand sample sizes and industry coverage to enhance generalizability
2. Employ longitudinal designs examining long-term effects of environmental practices
3. Investigate mediating mechanisms linking environmental practices to financial outcomes
4. Examine moderating factors influencing sustainability-performance relationships
5. Compare findings across countries with different regulatory environments
6. Explore qualitative dimensions of green accounting implementation and environmental management

Theoretical Contributions

This research advances academic understanding in several ways:
1. Empirical Validation: Provides sector-specific evidence supporting theoretical predictions regarding sustainability-financial performance relationships in emerging economy contexts
2. Integrated Perspective: Demonstrates synergistic effects of combined environmental transparency and operational performance, extending beyond studies examining individual practices
3. Measurement Advancement: Employs standardized environmental performance metrics (PROPER ratings) facilitating cross-study comparisons and meta-analytical integration
4. Contextual Specificity: Addresses the environmentally sensitive textile industry, where sustainability pressures create particularly relevant conditions for examining environmental practice effects

Practical Contributions

The findings offer actionable insights for various stakeholders:
1. Strategic Guidance: Demonstrates that environmental investments can enhance rather than compromise financial performance, supporting business case arguments for sustainability
2. Implementation Roadmap: Identifies specific practices (green accounting and environmental management) generating measurable financial benefits
3. Performance Metrics: Validates NPM as an appropriate outcome measure for evaluating sustainability initiative effectiveness
4. Stakeholder Communication: Provides evidence supporting environmental transparency and disclosure as value-creating activities

In conclusion, this research demonstrates that green accounting and environmental performance constitute

valuable strategic resources enhancing financial performance in Indonesian textile companies. By integrating environmental considerations into accounting practices and operational management, companies can simultaneously fulfill social responsibilities and create shareholder value. As environmental pressures intensify globally, these findings suggest that sustainability leadership will increasingly differentiate successful companies from struggling competitors.

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