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# Implementation of Green Accounting and Environmental Performance on the Company's Financial Performance (Study on Companies Winning the 2021 Green Industry Award)

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**Abstract**

Many environmental problems are caused by the company's operating activities which form the basis of this research, aiming to find out the application of green *accounting* and environmental performance to financial performance in concept *rahmatan lil alamin*. The method used in this research uses quantitative research methods. The population in this study are companies that are nominated to win the green industry award in 2021. The sample was selected using a purposive sampling method with three criteria which resulted in 40 companies that were worthy of observation. This study uses multiple regression analysis using the SPSS program. In this study, variables of green *accounting* are measured by environmental cost indicators, environmental performance variables using the PROPER rating value, and financial performance variables using ROA. Based on the results of the analysis, it shows that green accounting and environmental performance variables do not affect a company's financial performance. However, if the company has implemented green *accounting* then in line with the concept of Islamic economics which explains that welfare is carried out through fulfilling basic human needs, eliminating all difficulties and inconveniences, and increasing the quality of life morally and materially.

**Keywords:** *Green Accounting, Environmental Performance, Financial Performance*

## 1. Introduction

One way to assess the performance of a company is to look at the company's financial performance. Financial performance is a measure of the success or failure of a company in its business activities in generating company profits, by analyzing financial reports. One way to measure financial performance is to use *Return on Assets* (ROA).[i] According to Mardiyanto*Return on Assets* (ROA) is the ratio used to measure a company's ability to generate profits because this ratio represents the return on the company's activities.[ii] However, unfortunately, on the basis of wanting to generate maximum profit and obtain capital input, some companies still ignore the environmental and social impacts of the process of their activities. Currently, corporate responsibility is not only limited to financial performance but also social responsibility. This is also by the Government Regulation of the Republic of Indonesia Number 47 of 2012 concerning Social and Environmental Responsibility of Limited Liability Companies.[iii]

The environment is now increasingly polluted by the activities of companies that only seek profit without regard to the environment around the company. Environmental pollution that occurs as a result of the production process is caused by industrial companies and factories that do not pay attention to the management and handling of their waste, the government through the Ministry of Environment since 2002 has established a Company Performance Rating Rating Program in Environmental Management (PROPER). One form of the government's efforts is to give awards to industries that carry out green industry practices, to motivate industrial companies to apply green industry principles.

The field of accounting plays a role in efforts to preserve the environment, namely *Green Accounting* (environmental accounting). Draft *Green Accounting* began to develop in Europe in the 1970s. *Green Accounting* is the activity of collecting, analyzing, estimating, and preparing reports on both environmental and financial data with the aim of reducing environmental impacts and managing environmental costs.[iv] Based on this information, the indicators of implementation of green *accounting* namely environmental costs.[v] Environmental costs are costs incurred by companies due to company activities that cause environmental problems and affect environmental quality. Environmental costs are also associated with the creation, detection, repair, and prevention of environmental degradation.[vi]

The results of research by Hanifa Zulhaimi in 2015 show that *green accounting* has a significant effect on the company's financial performance, and there is an increase in earnings and company stock prices after the implementation of *Green accounting* In line with Putri et al's 2019 research with results showing environmental accounting has a significant effect on ROA profitability,[vii] Eka Sulistiawati and Novi Dirgantari's 2020 study also states that partially environmental performance has a positive effect on profitability. In contrast, Marini Asjuwita and Henri Agustin (2020) stated that environmental performance did not have a positive effect on profitability in manufacturing companies listed on the IDX in 2014-2018[viii] and Ameilia Damayanti, Shinta Budi Astuti (2020) in their research showing that environmental performance has no effect on financial performance.[ix] Based on the problems that have been described and the differences in results from previous studies, this research was conducted to re-examine the effect of green accounting and environmental performance on a company's financial performance.

## 2. Methodology

This study uses a type of quantitative research. The quantitative research method is a research method based on the philosophy of positivism, used to examine certain populations or samples, data collection uses research instruments, and data analysis is quantitative in nature with the aim of testing established hypotheses.[x] This research was conducted at manufacturing companies listed on the Indonesia Stock Exchange by taking the necessary data through the website www.idx.co.id . The research population consists of 100 companies that are nominated for the green industry award in 2021. The sample was determined using purposive sampling with the criteria of companies receiving the Green Industry award in 2021, companies listed on the IDX in 2021, and having and presenting annual reports in 2021. Variables in this study are financial performance as the dependent variable, as well as green accounting and environmental performance as independent variables.

## 3. Analysis

Hypothesis test

Table 1: Results of Multiple Linear Regression Analysis

| Coefficients | | | | | | |
|---|---|---|---|---|---|---|
| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
| | | B | Std. Error | Beta | | |
| 1 | (coconstant | 1.929 | 12.670 | | 0.152 | 0.880 |
| | *X1 (green accounting)* | 0.411 | 3.985 | .018 | 0.103 | 0.918 |
| | X2 (kinerja lingkungan) | 1.264 | 3.008 | .074 | 0.420 | 0.677 |

| a. Dependent Variable: Y (kinerja keuangan) |
|---|

Source: secondary data processed in 2023

Based on the results of the data in the table above *coefficients* the equation is obtained as follows:
Y = 1.929 – (0.411 X1) + (1.264 X2) +e

Based on the table above, it can be explained regarding the relationship between the dependent variable and the independent variable where the constant value of the regression model is 1.929, meaning that if the *green accounting* and environmental performance is constant or fixed, then the financial performance is 1.929. The regression coefficient of environmental performance is 1.264, meaning that if X2 (environmental performance) increases by 1%, it will be followed by an increase in financial performance of 1.264 assuming that the X1 variable does not affect or = 0. The regression coefficient for *green accounting* of 0.411 means that if X1 (*green accounting)* an increase of 1% will be followed by an increase in financial performance of 0.411 assuming that the X2 variable does not affect or = 0.

Partial significance test (Statistical t-test)

Table 2: T-test results

| Coefficients[a] | | | | | | |
|---|---|---|---|---|---|---|
| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 1.929 | 12.670 | | 0.152 | 0.880 |
| | X1 *(green accounting)* | 0.411 | 3.985 | .018 | 0.103 | 0.918 |
| | X2 (kinerja lingkungan) | 1.264 | 3.008 | .074 | 0.420 | 0.677 |
| a. Dependent Variable: Y (kinerja keuangan) | | | | | | |

Source: secondary data processed in 2023

In making decisions on the t statistical test, that is, if the significance value of t <0.05 then the alternative hypothesis is supported which states that an independent variable individually affects the dependent variable and vice versa. Furthermore, decision making if $t_{count}$ = $t_{table}$ or -$t_{count}$ = -$t_{table}$ so $H_0$ supported, and if $t_{count}$ > $t_{table}$ or –$t_{count}$ < -$t_{table}$ face $H_0$ not supported. In this study, it was known that the value of t table df = n-k (40-2-1 = 37) with a significance level of 0.05 obtained a t table of 2.026. Following are the results of the t-test in this study:

Based on the results of the t-test above the variable, *green accounting* has a significance value of 0.918 > 0.05, and a comparison of the value of t count and t table results obtained 0.103 <2.026 or t count <t table. This means that H0 is supported and H1 is not supported, thus it can be concluded that green accounting has no effect on the company's financial performance. The environmental performance variable has a significance value of 0.677 > 0.05 and a comparison of the t count and t table values yields 0.420 <2.026 or t count <t table which shows that H0 is supported and H2 is not supported, thus it can be concluded that environmental performance has no effect on performance company finance.

## 3.1 Test the Coefficient of Determination R2

The coefficient of determination (R2) is carried out to determine the suitability of the relationship between the independent variables and the dependent variable in a regression equation. The results of the determination test can be seen in the following table:

Table 3: Test Results for the Coefficient of Determination R2

| Model Summary | | | | |
|---|---|---|---|---|
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |

| | | | | |
|---|---|---|---|---|
| 1 | 0.082[a] | 0.007 | -.047 | 11.68774 |
| a. Predictors: (Constant), X2 (kinerja lingkungan), X1 (*green accounting*) | | | | |

Source: Secondary data processed in 2023

Based on Table 3 above, the Adjusted R Square value is 0.007 or 0.7%. This shows that the percentage of influence of *green accounting* and environmental performance on company financial performance by 0.7% while the remaining (100% - 0.7%) is 99.3% influenced by other variables not discussed in this study.

## 4. Conclusion

The purpose of this study is to analyze the effect *of green accounting* and environmental performance on company financial performance in green industry award companies in 2021. Based on the results of the analysis carried out from the first hypothesis, namely *Green accounting* does not affect the financial performance of a company, so hypothesis 1 states that *green accounting* has a significant effect on unsupported financial performance or supported Ho. This happens because companies that only aim to increase profits will consider every cost incurred, including environmental costs which are indicators of *green accounting* to reduce the amount of profit. Because there are also several companies that record environmental costs as administrative and general expenses. So in the application of *green accounting,* this does not have a significant effect on the company's financial performance. The result of the second hypothesis is that Environmental Performance has no significant effect on the company's financial performance. This shows that the company's activities in managing the environment cannot affect financial performance. This is because the PROPER assessment aspect does not directly touch the interests of the community around the company environment, so it does not get a positive image from the community. So that the application of environmental performance has no significant effect on the company's financial performance. Therefore, companies should be able to further improve their activities and quality, so that companies here are expected to improve environmental management. This activity is proven to provide benefits to society and maintain the legitimacy and trust of company stakeholders. For further research, it is recommended to use a longer year of observation and increase the number of variables such as CSR or company size. You can also use primary data so that the test results obtained are more valid.

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