The Mediating Role of Profitability in the Green Accounting-Firm Value Relationship: Evidence from Indonesian Primary Sectors

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ABSTRACT

Environmental and social impact disclosure pressures from investors and stakeholders have accelerated the adoption of environmental accounting and reporting systems, commonly referred to green accounting. Green accounting reflects a company's accountability toward the environmental impact of its operational activities, thereby enhancing stakeholder trust and positively influencing firm value. This study aims to examine the influence of green accounting implementation on firm value and to test the mediating role of profitability in this relationship. Employing purposive sampling methods, the sample is drawn from companies across seven major sectors listed on the Indonesia Stock Exchange over the 2022-2024 period. The research methodology adopts a path analysis framework using multiple linear regression. The empirical results demonstrate that green accounting implementation does not significantly influence firm value. Additionally, profitability does not significantly mediate the relationship between green accounting and firm value. These findings suggest that green accounting practices have not been effectively integrated into corporate value creation. These findings suggest that companies and regulators need to strengthen the mandatory disclosure framework for green accounting practices.

Keywords: Environmental Accounting; Firm Value; Profitability; Panel Data Analysis; Emerging Markets

Peran Mediasi Profitabilitas dalam Hubungan Akuntansi Hijau-Nilai Perusahaan: Bukti dari Sektor Primer Indonesia

ABSTRAK

Tekanan terhadap pengungkapan dampak lingkungan dan sosial dari pemangku kepentingan telah mempercepat adopsi sistem akuntansi dan pelaporan lingkungan yang dikenal sebagai green accounting. Green accounting mencerminkan bahwa perusahaan bertanggung jawab terhadap dampak lingkungan dari aktivitas operasionalnya, sehingga meningkatkan kepercayaan pemangku kepentingan dan berdampak positif terhadap nilai perusahaan. Penelitian ini bertujuan untuk menguji pengaruh implementasi green accounting terhadap nilai perusahaan serta menguji peran mediasi profitabilitas dalam hubungan tersebut. Dengan menggunakan metode purposive sampling, sampel penelitian diambil dari perusahaan di tujuh sektor utama yang terdaftar di Bursa Efek Indonesia selama periode 2022-2024. Metodologi penelitian mengadopsi kerangka analisis jalur menggunakan regresi linier berganda. Hasil empiris menunjukkan bahwa implementasi green accounting tidak berpengaruh signifikan terhadap nilai perusahaan. Selain itu, profitabilitas tidak memediasi secara signifikan hubungan antara green accounting dan nilai perusahaan. Temuan ini menunjukkan bahwa praktik akuntansi hijau belum terintegrasi secara efektif ke dalam nilai perusahaan. Temuan ini mengindikasikan bahwa perusahaan dan pengambil kebijakan perlu memperkuat kerangka pengungkapan wajib praktik green accounting.

Kata Kunci: *Green Accounting; Nilai Perusahaan; Profitabilitas; Analisis Data Panel; Bursa Efek Indonesia*

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INTRODUCTION

Industrial activities worldwide have demonstrably contributed to environmental degradation and pollution. The past two decades have witnessed increased attention to environmental concerns and growing pressure on businesses to demonstrate social and environmental responsibility. Non-compliance with environmental disclosure regulations may erode investor confidence, as it signals poor corporate governance and inadequate risk management practices. Consequently, such non-compliance can lead to a decline in firm value, as investors tend to reassign their capital toward companies. Consequently, firms are driven to achieve sustainable growth by implementing responsible operational practices consistent with the Triple Bottom Line (3P) framework of profit, planet, and people (Sukmadilaga et al., 2023).

Responding to these environmental imperatives, organizations are required to implement eco-friendly operational practices based on green accounting methodologies. Green accounting refers to the disclosure of information concerning business operations that affect the environment (Fernando et al., 2024). The International Federation of Accountants (IFAC) conceptualizes green accounting as a comprehensive process involving the identification, collection, analysis, and utilization of physical information related to energy, water, and material flows, alongside monetary information regarding environmental costs, revenues, and savings (Al-Dhaimesh, 2020). Green accounting implementation is considered essential because it provides a mechanism for determining whether corporations have fulfilled their environmental responsibilities, with potential positive implications for firm value.

Green accounting delivers substantial benefits to corporations and stakeholders that extend considerably beyond traditional financial performance measures. First, it establishes a quantifiable framework for reducing the adverse environmental impacts of corporate operations. By enabling systematic evaluation of environmental efficiency improvements, green accounting implementation facilitates the mitigation of organizational environmental challenges (Dwianika et al., 2024). Second, green accounting disclosure strengthens corporate reputation by demonstrating organizational commitment to the triple bottom line framework, which integrates social welfare, economic prosperity, and environmental stewardship. This is theoretically grounded in legitimacy theory, which posits that green accounting adoption serves as a signal of corporate dedication to social and environmental responsibility (Fernando et al., 2024). By providing comprehensive and integrated insights into both financial outcomes and sustainability performance, green accounting reporting ultimately contributes to enhanced overall organizational performance.

According to Sudimas et al., (2023) financial performance and green accounting affect firm value. Environmental management accounting significantly impacts firm value (Hidayat et al., 2024; Agustia et al., 2019). Green accounting enhances firm value by providing transparent environmental and financial information that signals superior corporate performance, innovation capability, and risk management to investors, thereby strengthening stakeholder confidence. Additionally, it reduces operational costs and risks through improved environmental efficiency while simultaneously enhancing corporate reputation

and accountability, which collectively contribute to increased shareholder value (Akpan & Nkanta, 2023). Consistent findings were reported by Sukmadilaga et al. (2023), who state that green accounting reporting exerts significant influence on firm value, with emission disclosure demonstrating positive effects on Economic Value Added (EVA) creation among companies recognized in the Asia Sustainability Reporting List Awards. This empirical evidence highlights the strategic importance of green accounting implementation in enhancing firm value for publicly listed corporations across ASEAN countries.

While these studies suggest a positive relationship, the empirical literature reveals considerable inconsistency in findings across different contexts. Fernando et al. (2024) documented that green accounting disclosure fails to significantly influence firm valuation within the mining and agricultural sectors of Southeast Asian nations. Consistent with this, Alaika & Firmansyah, (2024) documented that green accounting exerts a negative effect on firm value, indicating that environmental compliance creates short-term financial constraints for organizations.

Al-Dhaimesh (2020) provided additional evidence of weak green accounting implementation among Qatar Stock Exchange-listed firms, documenting an overall average implementation quality of only 15.74%. The findings revealed substantial sectoral heterogeneity, with banking and financial services (52.3%) and telecommunications (28.1%) sectors exhibiting relatively stronger practices, while insurance (2.1%) and real estate (1%) sectors demonstrated particularly weak implementation. Other sectors, including consumer goods and services (12.2%), industrial (8.8%), and transportation (5.7%), similarly reflected inadequate adoption of green accounting practices. The weak implementation quality documented in Qatar suggests that green accounting adoption remains challenging across emerging markets, with significant sectoral variations. This raises important questions about the current state of green accounting practices in Indonesia and their potential impact on firm valuation, which this study aims to address.

Furthermore this study addresses a significant gap in the literature by examining the influence of green accounting on firm value within the context of seven major sectors listed on the Indonesia Stock Exchange. Conducted in an emerging market environment characterized by a developing domestic investment landscape and increasingly stringent regulatory frameworks. The research provides valuable insights into the Indonesian context, where sustainable investment practices remain less prevalent compared to global trends. The study contributes novel empirical evidence by introducing profitability as a mediating variable in the relationship between green accounting and firm value, an unexplored mechanism in prior research.

Profitability was selected as a mediating variable in this study by considering the indirect effect of green accounting on firm value. Companies implementing green accounting may not experience an immediate increase in market value. The benefits often materialize first through improvements in internal efficiency then financial performance (Lestari et al., 2025). Green accounting leads to enhanced operational efficiency, cost savings, and improved corporate reputation, which collectively contribute to superior financial

performance. Prior studies have consistently demonstrated that improved financial performance positively influences firm value (Agustia et al., 2019), suggesting a clear pathway through which financial health translates into higher market valuation.

According to legitimacy theory, community support is essential for corporate sustainability, survival, growth, and reputation (Maama & Appiah, 2019). To secure such support, organizations must voluntarily disclose specific information to demonstrate that their activities are legitimate, authentic, and compliant with prevailing regulations. However, corporate green information disclosure cannot be adequately explained through a single theoretical lens; rather, the integration of legitimacy theory and stakeholder theory provides complementary insights into green accounting practices. Fundamentally, stakeholder theory posits that corporate success depends on the firm's ability to cultivate and maintain positive relationships with various stakeholder groups (Riyadh et al., 2020).

Drawing on stakeholder theory, green accounting enhances firm value by providing comprehensive environmental cost information that serves as a critical input for stakeholder investment decisions. Firms demonstrating transparency in environmental cost disclosure are perceived as more socially responsible and sustainable, thereby attracting environmentally conscious investors and achieving favorable market valuations. Through enhanced environmental performance transparency, organizations strengthen their competitive positioning, which translates directly into higher firm value. This theoretical proposition is empirically supported by multiple studies documenting positive associations between green accounting practices and firm valuation, including research by Agustia et al. (2019), Sukmadilaga et al. (2023), Hidayat et al. (2024), and Altarawneh et al. (2025), which collectively demonstrate that environmental accounting disclosure serves as a significant value-enhancing mechanism in corporate valuation.

H_1: There is a significant effect green accounting on firm value.

Green accounting demonstrates a positive impact on financial performance through dual pathways: enhanced operational efficiency and reduced production costs. This accounting framework enables organizations to systematically measure environmental costs and strengthen environmental disclosure mechanisms (Somjai et al., 2020). Through green accounting implementation, firms can identify strategic opportunities for waste minimization, resource recycling, and material reuse, thereby reducing raw material consumption and improving overall productivity. Green accounting practices serve to mitigate regulatory compliance risks and prevent potential conflicts with environmental regulations. Additionally, green accounting adoption plays a critical role in sustaining investor confidence and enhancing corporate reputation within capital markets. Empirical evidence supports the positive relationship between green accounting disclosure in sustainability reporting and financial performance, as documented in the banking sector (Banani & Sunarko, 2022) and among Indonesian multinational corporations (Somjai et al., 2020).

H_2: There is a significant effect green accounting on profitability.

Financial performance has been shown to exert a significant influence on firm value across various sectors and regions. This relationship is largely driven by market responses to a firm's financial health, which serves as a key determinant of its valuation. Hai (2024) argues that publicly available information is rapidly and accurately incorporated into security prices, making financial performance a critical factor assessed by investors in their decision-making processes. Greater disclosure regarding a firm's financial condition, future prospects, and related information reduces investor uncertainty. Strong financial performance is perceived as favorable news, prompting investors to increase their investment allocations and thereby elevating the firm's market capitalization. These findings are consistent with Istutik et al. (2024), who emphasize that maintaining robust financial performance is essential for enhancing firm value and underscores the need for effective financial management strategies.

H_3: There is a significant effect profitability on firm value.

Green accounting have been empirically shown to enhance firms' financial performance by improving operational efficiency and generating cost savings. Arif and Handayani (2024) identify financial performance as a key mediating mechanism through which green accounting contributes to increased firm value. Through resource efficiency in energy, water, and material use reinforces cost reductions. Firms with strong environmental practices also tend to achieve superior financial outcomes and more effective risk management. The empirical findings by Shao et al., (2025) indicate that environmental penalties exert a significant positive effect on carbon disclosure practices. Thus transparent disclosure of environmental management activities strengthens corporate legitimacy and reduces exposure to fines and regulatory penalties. Accordingly, improvements in financial performance derived from environmental reporting and ultimately translate into higher firm value.

H_4: Green accounting affects firm value through the mediating role of profitability.

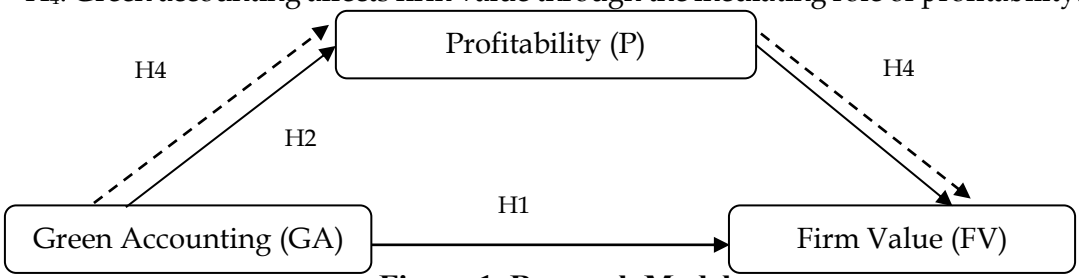

Figure 1. Research Model

Source: Research Data, 2025

RESEARCH METHODS

This study utilized secondary data obtained from financial statements, annual reports, and sustainability reports. The population consisted of finance, mining, plantation, food and beverage, transportation and logistics, chemicals, and energy sectors listed on the Indonesia Stock Exchange. These sectors were selected due to their significant environmental footprint and high exposure to regulatory scrutiny regarding environmental disclosure. Furthermore, these sectors represent the most resource-intensive and environmentally sensitive industries in Indonesia, providing a comprehensive and representative sample for assessing the

relationship between green accounting and firm value. Purposive sampling was employed as the sampling technique, resulting in 273 firm observations. Data analysis was performed using Eviews software. The sample selection procedure and final sample composition are detailed in Table 1.

Table 1 Sample Selection Process

Selection Criteria	Number of Firms
Companies from finance, mining, plantation, food and beverage, transportation and logistics, chemicals, and energy sectors listed on the Indonesia Stock Exchange during 2022-2024	207
Less: Companies with inconsistent or unavailable financial data (environmental costs, market capitalization, and total assets)	(116)
Companies meeting all selection criteria	91
Total firm-year observations (91 firms × 3 years)	273

Source: Research Data, 2025

Firm value as the dependent variable was proxied by the ratio of market capitalization to total assets, following Doruk (2025). This metric is calculated as follows:

Market Cap to Total Assets = Market Capitalization ÷ Total Assets…….(1)

Where:

Market Capitalization = Current share price × Total number of shares outstanding

Total Assets = Book value of total company assets

Green accounting serves as the independent variable was proxied by environmental costs. Following Riyadh et al. (2020), environmental costs encompass all expenditures resulting from organizational activities linked to the generation, detection, correction, and prevention of environmental degradation. Profitability serves as the mediating variable and is measured through the Return on Assets (ROA) ratio. This metric reflects the efficiency with which a company utilizes its assets to generate earnings, computed using the following formula:

ROA = Net Income ÷ Total Assets…….(2)

Where:

Net Income = Profit after tax for the period

Total Assets = Book value of total company assets

This study adopts a sequential analytical approach appropriate for panel data analysis with mediation effects. The analytical procedure comprises four main stages: (1) model specification tests (Chow test, Hausman test, and Lagrange Multiplier test) to determine the most suitable panel data estimation model among pooled ordinary least squares, fixed effects, and random effects models; (2) classical assumption diagnostics, including tests for multicollinearity, autocorrelation, and heteroscedasticity, to ensure the robustness and reliability of the regression estimates; (3) path analysis through multiple regression equations to examine the direct and indirect effects of the independent variable on the dependent variable via the mediating variable; and (4) hypothesis testing to assess the statistical significance of the estimated coefficients. Eviews software was utilized for all econometric analyses.

To examine the mediating effect, the following two-stage regression equations were specified:

$P = \alpha_1 + \beta_1 GA + \varepsilon_1$ ……..…… (3)
$FV = \alpha_2 + \beta_2 GA + \beta_3 P + \varepsilon_2$ ……...……... (4)
Where:
FV = Firm Value (dependent variable)
GA = Green Accounting (independent variable)
P = Profitability (mediating variable)
α_1, α_2 = Intercept
β_1, β_2, β_3 = Coefficients
ε_1, ε_2 = Error

RESULTS AND DISCUSSION

The selection of an appropriate econometric model specification a critical preliminary stage in panel data analysis that must be completed before conducting regression estimation. This model selection process involves performing a series of diagnostic tests to determine whether a pooled ordinary least squares (OLS), fixed effects, or random effects specification best captures the underlying data-generating process. Failure to conduct these specification tests may result in inefficient estimates or incorrect statistical inferences.

Table 2 Chow Test

Redundant Fixed Effects Tests Effects Test	Statistic	d.f.	Prob.
Cross-section F	9.823	(42,83)	0.000
Cross-section Chi-square	230.508	42	0.000

Source: Research Data, 2025

The Chow test was conducted to determine whether the pooled OLS or fixed effects model is more appropriate for the panel data. The results indicate that both the F-statistic and Chi-square statistic are statistically significant at the 1% level (p-value = 0.0000 < 0.05). Consequently, the null hypothesis of no cross-sectional fixed effects is rejected, suggesting that the fixed effects model is preferable to the pooled OLS model.

Table 3 Hausman Test

Correlated Random Effects - Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	10.502	3	0.014

Source: Research Data, 2025

The Hausman test was performed to determine whether the fixed effects model (FEM) or random effects model (REM) is more appropriate for this analysis. The test yielded a probability value of 0.0147. Since the p-value (0.0147) is less than the 0.05 significance level, the null hypothesis that the random effects model is rejected. This result indicates that the fixed effects model is the preferred specification. Consequently, the Lagrange Multiplier (LM) test was not necessary, as the model selection process conclusively identified the fixed effects model as the most suitable estimation technique for the panel data in this study.

Following the completion of model specification tests, the fixed effects model emerged as the most appropriate estimation framework for this analysis. Table 4 reports the ordinary least squares (OLS) regression coefficients and mediation test results. The estimated equation is specified as follows:

P = 101,794 + 8,306 GA + ε_1 ..... (5)

FV = 0,648 + 0,000GA + 0,083P + ε_2 ..... (6)

Table 4 Regression Test Results

Variable			Model (1)	Model (2)	Mediating Effect	Decision
Constanta			0,648	101,794	0,230	
GA▼	FV			0,493 (0,000)		Rejected
GA▼	P		0,123 (8,306)			Rejected
P ▼	FV			0,000* (0,083)		Accepted
GA▼	P▼	FV			0,818 (0,230)	Rejected

Source: Research Data, 2025

Table 4 summarizes the regression estimates examining the direct and mediated relationships among green accounting (GA), profitability (P) as the mediating variable, and firm value (FV). Model (1) assesses the effect of green accounting on profitability. The test shows a statistically insignificant positive association with a coefficient of 8.306 (t-statistic = 0.123, $p > 0.05$). This finding suggests that green accounting practices do not significantly influence profitability.

The fundamental principle underlying green accounting is the internalization of environmental costs to corporate financial statements. This enabling organizations to make more informed strategic decisions while assuming responsibility for their ecological footprint (Riyadh et al., 2020). Through the incorporation of environmental expenditures into financial reporting frameworks, companies can develop a more comprehensive understanding of the actual costs associated with their operational activities. Green accounting facilitate the identification of opportunities for cost reduction, operational efficiency enhancement, and resource optimization (Sumiati et al., 2022). The integration of environmental costs represents a critical component of green accounting management, as these previously unaccounted expenses can substantially influence corporate financial performance.

Despite the theoretical appeal of green accounting, some studies have raised important criticisms regarding the presumed direct relationship between environmental cost internalization and enhanced financial performance. Critics argue that the integration of environmental costs into financial reporting systems does not automatically translate into improved profitability (Riyadh et al., 2020). This critique highlights the oversimplification a linear relationship between environmental impact accounting and financial outcomes. Numerous variables may exert more substantial influence on corporate performance. Factors such as competitive market dynamics, regulatory frameworks, enforcement mechanisms, customer preferences, stakeholder expectations, technological innovation, and

industry-specific characteristics may play more determinative roles in shaping financial results than environmental accounting practices alone (Sumiati et al., 2022). Consequently, the isolated effect of green accounting on profitability may be obscured by these contextual and strategic variables.

Furthermore, the practical implementation of green accounting systems presents significant resource allocation challenges that may offset the anticipated benefits for certain organizations. The establishment of comprehensive environmental accounting frameworks requires substantial investments in information systems, personnel training, data collection infrastructure, external verification processes, and ongoing monitoring mechanisms (Repetto & Austin, 2002). Thus the cost-benefit calculus of green accounting adoption may be unfavorable, particularly in the short to medium term.

Model (2) evaluates the direct effects of green accounting and profitability on firm value. The analysis reveals that green accounting exhibits a statistically insignificant relationship with firm value, with a coefficient of 0.000 ($p = 0.493 > 0.05$). This finding shows that green accounting practices do not significantly influence firm value. This finding suggests that the disclosure of green accounting information in annual reports or sustainability reports does not materially influence stock price movements. Investors appear not to incorporate green accounting disclosures into their investment decision Fernando et al., (2024). Further examination of the results shows that firm value remains predominantly determined by the control variable of leverage. This suggests that investors prioritize corporate leverage ratios over green accounting disclosures when making investment decisions.

This observation aligns with recent empirical evidence by Fernando et al. (2024) who found that environmental disclosures, including green accounting information, do not significantly affect firm value. The authors attribute this phenomenon to several factors, including limited investor awareness of environmental accounting metrics and the predominance of traditional financial indicators in investment analysis. A study by Alaika and Firmansyah, (2024) found that while companies endeavor to satisfy the demands of environmentally-conscious stakeholders, such initiatives may generate concerns among investors regarding the associated costs and risks of these practices. Although green accounting addresses environmental imperatives, it may compromise profitability and amplify investor skepticism, thereby diminishing firm value in the near term.

The disconnect between green accounting disclosure and market valuation is particularly pronounced in emerging market contexts, where institutional frameworks for sustainability reporting remain underdeveloped. An examination of 207 companies in Indonesia's primary sectors reveals that 116 firms (56.04%) fail to disclose green accounting information in either their annual reports or sustainability reports. This substantial disclosure gap suggests that a majority of companies in key Indonesian industries do not provide investors with comprehensive environmental accounting information necessary for informed decision-making. The absence of such disclosures perpetuates information asymmetry between management and stakeholders, limiting investors' ability to assess environmental risks. This lack of transparency may reflect companies' perception that investors do not significantly value or utilize green accounting

information in their investment analyses. This aligns with the empirical finding of no significant relationship between green accounting disclosure and firm value.

The direct path from profitability to firm value yields a coefficient of 0.083 (t-statistic = 0.000, $p < 0.05$), indicating a statistically significant positive relationship. This result demonstrates that profitability serves a significant impact on firm value. This relationship is primarily attributable to market mechanisms that respond to corporate financial health. As Hai (2024) contends, publicly disclosed information is efficiently and precisely reflected in security prices. Financial performance—particularly profitability—was a critical factor in investors' decision-making processes. Enhanced transparency regarding a firm's financial condition, future earnings potential, and associated disclosures mitigates information asymmetry and reduces investor uncertainty. Superior financial performance, especially strong profitability metrics, signals positive prospects to market participants, incentivizing increased capital allocation and consequently elevating market capitalization. This empirical findings align with Istutik et al. (2024), who underscore that sustaining financial performance is imperative for value creation.

The mediation model (GA → P → FV) presented in Model (iii) incorporates both the independent and mediating variables to test the indirect pathway. The analysis produces a coefficient of 0.818 (t-statistic = 0.230, $p > 0.05$) with a constant of 0.230, representing a statistically insignificant relationship. This result indicates that profitability does not serve as a significant mediator in the relationship between green accounting and firm value. Investor prioritization of direct profitability signals over environmental performance metrics may contributes to this non-mediation effect. Contemporary research on Indonesian energy sector companies confirms that while profitability significantly affects firm value, green accounting exerts no significant influence, partly due to investor priorities and data limitations (Dahlia et al., 2024). Market participants may perceive environmental expenditures as cost centers rather than value drivers, thereby bypassing the profitability channel when evaluating firm value based on green accounting disclosures. Furthermore, Hutabarat (2024) found that green accounting did not significantly affect profitability in Jakarta Islamic Index companies, though profitability itself maintained a strong positive impact on firm value. This pattern suggests that profitability operates as an independent value driver rather than functioning as an intermediary mechanism through which green accounting influences firm value.

CONCLUSION

This study examines the impact of green accounting on firm value in Indonesia, with profitability as mediating. The empirical evidence demonstrates that green accounting exert no significant direct influence on firm value, nor do they significantly affect profitability. While profitability maintains a significant impact on firm value, it fails to function as a significant mediator between green accounting and firm value. These findings suggest that green accounting practices have not been effectively integrated into corporate value creation processes. Thus, investors should incorporate environmental variables as integral components of their investment risk assessment frameworks. For corporations, green accounting

should be systematically integrated into core operational efficiency evaluations. This study acknowledges several limitations that present opportunities for future research. First, the research focuses exclusively on Indonesian primary sector companies, which may limit the generalizability of findings to other industries or economic development levels. Future research may expand the sample to diverse sectors such as manufacturing, services, and technology industries, as well as comparative studies across different countries with varying regulatory environments and market maturity levels. Second, the study employs a limited time horizon that may not capture the long-term effects of green accounting practices on profitability and firm value. Additionally, future research may investigate potential moderating variables such as firm size, ownership structure, board composition, environmental sensitivity of the industry, regulatory stringency, stakeholder activism intensity, or institutional ownership concentration may significantly affect how green accounting practices translate into financial performance and firm value.

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