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THE EFFECT OF ENVIRONMENTAL PERFORMANCE, ENVIRONMENTAL COSTS AND ENVIRONMENTALLY FRIENDLY PRODUCTS ON FINANCIAL PERFORMANCE

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Abstract:
This research aims to find out whether environmental performance, environmental cost and eco-friendly products influence the financial performance of manufacturing companies on the Indonesia Stock Exchange. This type of company was chosen because the company has a high level of sensitivity, which is of concern to investors due to the large amount of energy expended on its operational activities. The population used is cement, chemical and mining industry companies listed on the Indonesia Stock Exchange in 2021-2023. Sample selection was used through a purposive sampling method during the 2021-2023 observation period and was not delisted during the research period, resulting in a total sample of 120 samples. Based on the testing of 120 samples, tests were then carried out, including descriptive statistics, classical assumption tests and research hypothesis tests. The results of the hypothesis test are that environmental performance has a positive effect on the company's financial performance, environmental costs have a positive effect on the company's financial performance, and environmentally friendly products have a positive effect on the company's financial performance.

Keywords: Environmental Performance, Environmental Cost, Eco-Friendly Products, Company Financial Performance

INTRODUCTION

Rapid global developments drive increasingly tight business competition but also cause increased exploitation of natural resources and environmental pollution. Companies are not only required to achieve efficiency and productivity but also must pay attention to the welfare of consumers, employees, and the surrounding environment. Unfortunately, there are still many companies that ignore environmental impacts for maximum profit. As a result, the concept of green accounting is increasingly important in the modern business world. Green accounting helps companies manage environmental impacts by recording external costs resulting from economic activities. Environmental preservation through green accounting can also improve the image and value of the company in the long term. The implementation of green accounting has proven to be beneficial for business sustainability and the welfare of the surrounding community (Gracia & Ika, 2018).

The manufacturing sector has great potential to produce hazardous waste, but company compliance with environmental management is still low. The Ministry of Environment and Forestry (KLHK) assesses that the manufacturing industry is still lacking in implementing waste management according to standards. Manufacturing companies must face challenges in handling hazardous and toxic waste (B3) to minimize negative impacts on the environment. Good waste management can improve a company's reputation in the eyes of the public and investors. In addition, compliance with high environmental standards can reduce long-term costs associated with pollution. Thus, companies that pay attention to environmental aspects have stronger legitimacy. It

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has a positive impact on financial performance and long-term business continuity (Rosaline & Wuryani, 2023).

The concept of green accounting in business is regulated in Government Regulation No. 47 of 2012, which requires limited liability companies to have social and environmental responsibility. Green accounting functions to record environmental costs that may arise from business activities so that companies can manage them more efficiently. Some green accounting practices that can increase cost efficiency include the use of environmentally friendly raw materials, optimal waste management, and disclosure of Corporate Social Responsibility (CSR). The implementation of green accounting not only has an impact on cost efficiency but also increases competitiveness through environmentally friendly products (Paradila et al., 2022). Thus, companies that implement green accounting can maintain their profitability and business sustainability in the long term. Consumers are now increasingly aware of environmental issues and tend to choose products produced by companies that implement environmentally friendly practices. Therefore, green accounting can provide added value to companies facing market competition (Faizah, 2020).

Despite its many benefits, not all companies implement green accounting in their operations. Some companies consider that implementing green accounting will increase production costs and have an impact on product price increases. In addition, many companies do not allocate environmental costs in their budgets because they are considered not to contribute directly to profits. As a result, environmental issues are getting worse and have a negative impact on long-term business sustainability. The current environmental and social crisis is largely caused by an economic pattern that is only oriented towards profit without considering its impact on society and nature. Traditional accounting is also considered a trigger because it focuses more on financial transactions than on environmental impacts. Therefore, modern accounting must include recording financial, social, and environmental information in an integrated manner (Saraswati, 2010).

The company's financial performance is measured through annual financial reports prepared as a form of accountability to stakeholders. Financial performance assessment is important for investors in determining the level of profit and investment risk. Stakeholders tend to consider the company's profitability before investing, one of which is by looking at Return on Assets (ROA). ROA reflects the company's efficiency in managing its assets to generate profits. The application of green accounting can increase the efficiency of resource use, thus having a positive impact on the company's profitability. In addition, companies that are committed to the environment are more appreciated by investors because they are considered to have a lower risk. Therefore, transparency in reporting environmental costs is an important factor in attracting investment (Saraswati, 2010).

Several studies have shown mixed results regarding the effect of green accounting on financial performance. Candra et al. (2021) found that the implementation of green accounting did not have a significant impact on the company's financial performance. However, another study by Rosaline and Wuryani (2023) stated that green accounting can increase the company's value in the long term. Another study of mining and cement industry companies on the IDX also showed that environmental performance affects profitability. Conversely, high environmental costs can actually increase product prices and reduce the company's competitiveness. Therefore, companies must find a balance between environmental costs and profitability in order to remain competitive. With increasing environmental awareness, the implementation of green accounting will be an important factor in maintaining business sustainability in the future (Damayanti & Astuti, 2022).

Stakeholder Theory and Legitimacy. Stakeholder theory was first introduced by the Stanford Research Institute (SRI) in 1963 and further explained (Freeman, 1984). This theory discusses the relationship between a company and its stakeholders, emphasizing the importance of management

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in accommodating the interests of various parties (Freeman, 1984). Freeman (1984) stated that stakeholder theory recommends management practices and structures that focus on stakeholder satisfaction. Freeman (1984) added that companies need stakeholder support to ensure the continuity of their operations. One strategy used is sustainability reporting, covering social, economic, and environmental performance (Freeman, 1984). By implementing green accounting, companies can increase stakeholder satisfaction through transparency and operational efficiency. It helps companies balance various interests to obtain continued support (Freeman, 1984).

Legitimacy theory emphasizes the importance of alignment between corporate and societal values to avoid legitimacy gaps, which are differences in values that can threaten a company's existence. When a company does not meet societal expectations, the risk of social conflict can disrupt operations and financial performance. This theory highlights the importance of companies adapting to social norms so as not to lose legitimacy (Freeman, 1984). Companies must monitor corporate and social values to identify and manage potential gaps. One way to maintain legitimacy is through corporate social responsibility (CSR) activities that are relevant to the needs of society. By gaining social legitimacy, companies can optimize long-term financial performance. Therefore, the implementation of CSR and sustainable business practices are key to maintaining a company's reputation and existence (Freeman, 1984).

Financial Performance. The company's financial performance is one of the main indicators of success analyzed through financial reports. According to Fahmi (Freeman, 1984), financial performance is an analysis to measure the company's achievements based on appropriate financial regulations. Freeman (1984) defines financial performance as a picture of the company's financial condition analyzed using business needs-based techniques. In general, financial performance reflects management's ability to manage finances according to applicable rules, with standards set by Financial Accounting Standards (SAK). This evaluation covers all aspects, from core activities and financing to investments that are measured accurately in a certain period. Financial performance is a basic tool for assessing the company's financial position over a certain period. This evaluation is carried out using relevant analysis methods and instruments to ensure the accuracy of financial reports (Wahyuning & Indah, 2020).

In this study, financial performance is measured using Return on Assets (ROA), which is a ratio that shows the rate of return on a company's total assets. Freeman (1984) explains that ROA reflects management efficiency in utilizing assets to generate income. ROA is considered a good indicator of profitability because it is able to show how effectively a company manages its assets. In addition, financial statements are an important tool in assessing company performance because they record all information related to income and expenses transparently. Accurate financial reporting helps management in making strategic decisions to improve financial performance. Thus, ROA and financial statements are crucial components in evaluating company performance. It shows the importance of efficient financial management to achieve sustainable business goals (Kasmir, 2012).

Green Accounting Aspects. Green accounting has four main aspects, one of which is environmental performance, which is the company's responsibility for the use of environmentally friendly resources. This performance includes production processes that do not pollute the environment and produce safe products (Freeman, 1984). Freeman (1984), found that environmental costs have a significant effect on financial performance, especially Return on Assets (ROA). In addition, (Freeman, 1984) emphasized the importance of accounting reports that include economic, environmental, and social performance to support the company's competitiveness in the eyes of stakeholders. Environmental performance evaluation is carried out through the PROPER program organized by the Ministry of Environment. PROPER assesses company compliance in managing the

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environment through a color rating system from gold (highest) to black (lowest). This program aims to encourage corporate transparency in environmental management (Tisna et al., 2020).

The second aspect is environmental costs, namely expenses arising from adverse impacts or environmental degradation ((Freeman, 1984). These costs include prevention, detection, repair, and control of environmental degradation due to company activities. Mowen and Hansen group environmental costs into four categories: prevention costs, detection costs, internal failure costs, and external failure costs. According to Purwari (Freeman, 1984), environmental costs are also considered a long-term investment that can improve a company's reputation. Environmental costs are measured by comparing the costs of Corporate Social Responsibility (CSR) activities to the company's net profit. It shows that environmental spending is not only a burden but also a strategy for corporate sustainability. Well-managed environmental costs can improve financial performance and business sustainability (Rosaline & Eni Wuryani, 2023).

The third aspect is environmentally friendly products, which are products designed to reduce negative impacts on the environment during production, distribution, and use. These products usually use recycled raw materials, do not contain hazardous materials, and utilize energy and resources efficiently. In addition, environmentally friendly products use packaging that is safe for humans and animals. The existence of these products provides financial benefits for companies because they can reduce the risk of lawsuits related to environmental damage. The application of environmentally friendly products also reflects the implementation of green accounting in company activities. By producing environmentally friendly products, companies can improve their positive image in the eyes of consumers and the government. It shows that environmental sustainability can go hand in hand with the company's financial benefits (Ladyve et al., 2020).

METHODS

This study uses a quantitative descriptive method to describe an event through numerical data and test the effect of independent variables on the dependent variable. The independent variables in this study include environmental performance, environmental costs, and environmentally friendly products, while the dependent variable is the company's financial performance. This type of research is included in the hypothesis test because it aims to determine the relationship between these variables (Artana et al., 2023). The study population consists of companies in the Cement, Chemical, and Mining Sector industries listed on the Indonesia Stock Exchange (IDX) in the 2021-2023 period. The research sample was taken using a purposive sampling method with specific criteria, namely companies listed on the IDX, participating in PROPER, and having complete data on the variables studied. The research data comes from financial reports, sustainability reports, annual reports, company websites, and the IDX, which are categorized as secondary data. The analysis technique used is multiple linear regression to test the effect of independent variables on the dependent variable (Ghozali, 2018).

Data collection was carried out through documentation methods and the availability of relevant data from official company sources. Data analysis used the SPSS program to calculate statistical values, including multiple regression equations, correlation coefficients, and classical assumption tests to ensure data validity. Hypothesis testing was carried out to determine how much influence the independent variables had on the dependent variables. The analysis process includes several steps, starting from initial data processing and classical assumption tests to interpreting the regression results to conclude. Multiple linear regression is used because it is able to analyze the relationship of more than one independent variable to one dependent variable simultaneously. The results of this analysis are expected to provide a clear picture of the factors that influence the

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company's financial performance in the context of green accounting. Thus, this study can make an important contribution to the development of environmental accounting theory and practice (Ghozali, 2018).

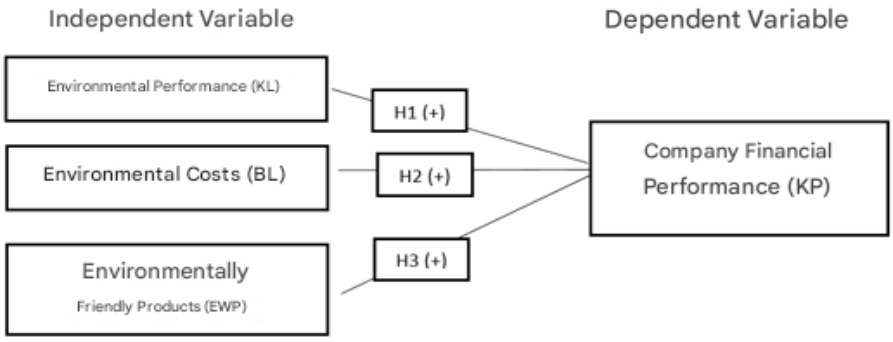

Figure 1. Thinking Framework

RESULT AND DISCUSSION

This study uses a sample of Cement, Chemical and Mining Sector Industry Companies listed on the Indonesia Stock Exchange (IDX) during the period 2021-2023. The results of sample selection using the purposive sampling method during the observation period of 2021-2023 and no delisting during the study period, obtained a sample size of 120 samples. The descriptive statistics of this study are as follows:

Table 1. Descriptive Statistics

Descriptive Statistics					
	N	**Minimum**	**Maximum**	**Mean**	**Std. Deviation**
Environmental Performance	120	3,00	5,00	4,8000	0,46018
Environmental Cost	120	0,00	0,96	0,1491	0,20790
Eco-Friendly Products	120	0,00	1,00	0,8750	0,33211
Firm Financial Performance	120	0,00	0,62	0,1262	0,15249
Valid N (listwise)	120				

Table 1 represents the number of valid observations for all variables is 120, indicating that complete data for each variable is available. This analysis provides an understanding of the distribution and main characteristics of each variable in the research framework. Then for the normality test as follows:

Table 2. Normality Test Results

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		120
Normal Parameters[a,b]	Mean	0,0000000
	Std. Devotion	0,15074957
Most Extreme Differences	Absolute	0,254
	Positive	0,254
	Negative	-0,195
Test Statistic		0.254
Asymp. Sig (2-tailed)		

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a. Test distribution is Normal.
b. Calculated from data
c. Lilliefors Significance correction

The results of the normality test above show that the multiple regression model created has a normal distribution. Then continued with the multicollinearity test as follows:

Table 3. Multicollinearity Test

Coefficients[a]									
Model				**Standardized Coefficients**	**t**	**Sig**	**Collinearty Statistics**		**Conclusion**
				Beta			**Tolerance**	**VIF**	
1	(Constant)	0,023	0,152		0,152	0,879			**No Multicollinearity**
	Environmental Performance	0,021	0,030	0,065	0,706	0,482	0,999	1,001	**No Multicollinearity**
	Environmental Cost	-0,095	0,067	-0,130	-1,410	0,161	0,999	1,001	**No Multicollinearity**
	Eco-Friendly Products	0,016	0,042	0,035	0,385	0,701	1,000	1,000	**No Multicollinearity**

a. Dependent Variable: RES_1

The table above shows that all variables have a VIF value <10, so it can be concluded that there is no multicollinearity. Then, the autocorrelation test is as follows:

Table 4. Autocorrelation Test

DL	Durbin-Watson	DU	Decision
1,6339	2,194	1,7715	There is no autocorrelation

Based on the table above, the dw value of 2.194 is greater than the upper limit (du) of 1.7715 and less than 4-du (4- 1.7715 = 2.2285), it can be concluded that there is no autocorrelation. Then continued with the heteroscedasticity test, namely:

Table 5. Heteroscedasticity Test

Coefficients[a]							
Model		**Unstandardized Coefficients**	**Std. Error**	**Standardized Coefficients**	**t**	**Sig**	**Conclusion**
		B		**Beta**			
1	(Constant)	0,036	0,095		0,376	0,708	**There is no heteroscedasticity**
	Environmental Performance	0,013	0,019	0,062	0,675	0,501	**There is no heteroscedasticity**
	Environmental Cost	-0,039	0,042	-0,085	-0,922	0,359	**There is no heteroscedasticity**
	Eco-Friendly Products	0,029	0,026	0,100	1,085	0,280	**There is no heteroscedasticity**

a. Dependent Variable: RES_2

The results of the heteroscedasticity test above show that all variables have sig values greater than 0.05. Therefore, it can be concluded that the regression model is not constrained by

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heteroscedasticity. Then, starting from the coefficient of determination, the hypothesis test is carried out.

Table 6. Goodness of Fit Test

Model Summary[b]					
Model	**R**	**R-Square**	**Adjusted R-Square**	**Std. Error of the Estimate**	**Durbin-Watson**
1	.151	0,227	0,257	0,15269	2,194

a. predictors: (Constant), Environmentally Friendly Products, Environmental Performance, Environmental Costs
b. Dependent Variable: Company Financial Performance

In Table 6, the Adjusted R Square value is 0.257. It means that the variation of the independent and moderating variables (Environmental Performance, Environmental Costs and Environmentally Friendly Products) can explain the variation of the dependent variable of the company's financial performance by 25.7%. In comparison, other factors explain the remaining 74.3% of the dependent variable variance.

Table 7. F Statistical Test

ANOVA[a]						
Model		**Sum of Squares**	**df**	**Mean Squares**	**F**	**Sig.**
1	Regression	0,736	4	0,184	61,945	.000[b]
	Residual	0,342	115	0,003		
	Total	1,077	119			

a. Dependent Variable: RES_2
b. predictors: (Constant), Unstandardized Residual, Environmentally Friendly Products, Environmental Performance, Environmental Costs

Table 7 shows the sig value of F of 0.000, which is smaller than 0.05 (α = 0.05). The calculated F is 61.945> F table of 2.68, so it can be concluded that with a confidence level of 95%, all variables together have a significant effect on the company's financial performance.

Table 8. Regression Test Results (t-Test)

Coefficients[a]								
Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**	**Sig. One Talled**	**Conclusion**
		B	**Std. Error**	**Beta**				
1	(Constant)	0,023	0,152		2,152	0,008	0,004	
	Environmental Performance	0,513	0,034	0,813	5,222	0,023	0,012	H1 Accepted
	Environmental Cost	0,122	0,011	0,087	2,423	0,003	0,002	H2 Accepted
	Eco-Friendly Products	0,091	0,025	0,100	3,724	0,027	0,014	H3 Accepted

a. Dependent Variable: Company Financial Performance

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Based on the results of the t-test on the regression model, it was found that Environmental Performance has a positive effect on the company's financial performance with a significance value of 0.003 which is smaller than 0.05 and an unstandardized beta value of 0.513. In addition, environmental costs also have a positive effect on the company's financial performance, with a significance value of 0.003 and an unstandardized beta of 0.122. Environmentally friendly products also show a positive effect on the company's financial performance with a significance value of 0.027 and an unstandardized beta of 0.091. The three variables have a T-value greater than the T table, namely 5.222, 2.423, and 3.724, which confirms that their influence is significant. Thus, H1, H2, and H3 are accepted. Thus, Environmental Performance, Environmental Costs, and Environmentally Friendly Products partially have a positive effect on the company's financial performance. In conclusion, the implementation of environmental policies can improve the company's financial performance.

The effect of environmental performance on a company's financial performance shows positive results, in line with research by Ratusasi and Prastiwi (2021), which found that companies with good environmental performance tend to have better financial performance. Commitment to environmental performance leads to more efficient resource management, reduced operating costs, and increased profitability. Energy-saving practices, for example, not only reduce carbon emissions but also energy costs. In addition, companies with good environmental performance can improve their reputation in the eyes of consumers, investors, and regulators, leading to increased sales and market share. Support from investors interested in good risk management and incentives from the government also strengthen the company's financial position. Companies that focus on sustainability tend to be better prepared to face strict regulations, avoid fines, and maintain operational stability. Innovation in green technology also often arises from efforts to reduce environmental impacts, expand markets, and open up new revenue opportunities.

Environmental costs, according to research by Hapsari et al. (2021), have been shown to have a positive impact on a company's financial performance. Spending on environmentally friendly technology and waste management helps companies achieve operational efficiency, reduce energy and raw material consumption, and reduce waste volume. This efficiency leads to increased profit margins. In addition, the environmental costs incurred can improve the company's reputation in the eyes of stakeholders, such as consumers and investors, who are increasingly concerned about sustainability issues. The government often provides incentives such as subsidies or tax deductions to companies that invest in environmental management, which can reduce the burden of operational costs. Spending on environmental costs also helps companies mitigate regulatory risks, thereby increasing financial stability in the long term. Through this investment, companies can innovate and develop new products or technologies that increase competitiveness in the market (Widiyanti et al., 2024).

Eco-friendly products have been shown to have a positive impact on a company's financial performance, as found in Hadriyani and Dewi's (2020) research. Eco-friendly products attract consumers who care about environmental issues, allowing companies to reach a wider market and increase sales. This product differentiation provides a competitive advantage that strengthens the company's position in the market. Eco-friendly products also allow companies to comply with increasingly stringent regulations, avoid sanctions, and obtain government incentives, such as subsidies or tax deductions, which can reduce operating costs. In addition, efficiency in the production process of eco-friendly products reduces the use of resources, energy, and waste, which lowers production costs and increases profit margins. These products also attract the attention of investors who use ESG (Environment, Social, Governance) criteria, which have the potential to

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increase the company's stock value and access to capital. The company's reputation is also increasingly protected because eco-friendly products can mitigate reputational risk in the digital era and help build a positive image that has a positive impact on financial performance.

CONCLUSION

Environmental performance, environmental costs, and green products all have a significant positive impact on a company's financial performance. Good environmental performance reflects social responsibility and effective governance, providing long-term financial and strategic benefits to the company. Likewise, spending on environmental costs reflects a commitment to sustainability and good corporate governance, which in turn improves financial performance. Green products, which demonstrate social responsibility and a commitment to sustainability, help companies meet stakeholder expectations and create long-term value. Companies that invest in these three aspects can enjoy various benefits, both financial and reputational, that have a positive impact on their financial performance. By adopting a sustainability-focused strategy, companies can increase their competitiveness and ensure future business continuity. Therefore, commitment to environmental performance, environmental costs, and green products are key factors in achieving optimal financial performance.

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