

The effect of sustainability reporting and green accounting on financial performance (A study of manufacturing companies listed on IDX between the years 2018-2022)

Agustin Prasetyowati, Marsono

Department of Accounting, Diponegoro University, Jl. Prof. Soedharto SH Tembalang, Semarang, Indonesia

Abstract

This study aims to examine the effect of disclosure of sustainability reports on the economic dimension, social dimension, environmental dimension, and green accounting on the company's financial performance. The population of this study amounted to 165 manufacturing companies listed on the IDX in 2018-2022. Sample selection was carried out using the purposive sampling method with the results of 33 research samples. The data analysis method used is multiple linear regression analysis. Based on the results of the study, the disclosure of the economic dimension sustainability report does not affect ROA and ROS. The disclosure of the social dimension sustainability report has a significant positive effect on ROA and ROS. Disclosure of the environmental dimension sustainability report does not affect ROA and has a significant positive effect on ROS. Furthermore, green accounting has a significant positive effect on ROA and does not affect ROS.

Keywords: Economic dimension, social dimension, environmental dimension, green accounting, ROA, ROS

Introduction

The era of rapid globalization has had an impact on the development of the economic sector. The development of this economic sector has led to increasingly fierce business competition and is followed by widespread environmental problems. According to stakeholders, company performance is not only seen from financial performance (Sari & Andreas, 2019) [28]. The demands of companies in the era of globalization are no longer related to company profits but to the company's performance in implementing sustainable development.

Companies should pay attention to the impact on social and environmental aspects arising from their business operations. The Lapindo Mud incident in Sidoarjo is one of the environmental impacts that occurred in Indonesia and has become a conversation until now (Natalia, 2014) [21]. Companies that are aware of environmental impacts try to use natural resources reasonably to minimize the social and environmental impacts caused. Company awareness of social and environmental impacts can be achieved by disclosing information related to the environmental and social impacts of the company's operational activities. This is done through the publication of a sustainability report. A sustainability report is a communication tool used to assist managers in signaling credibility and sustainability information to stakeholders (Romero *et al.*, 2019) [26]. There are three dimensions covered in the sustainability report, namely the economic dimension, social dimension, and environmental dimension. The publication concept better known as the Triple Bottom Line (TBL) concept explains the three aspects of people-planet-profit sustainability. A business must account for the positive and negative impacts of the people-planet-profit aspects (Elkington & Rowlands, 1999) [12].

An organization called the Global Reporting Initiative (GRI) created regulations related to sustainability reports as a result of the increasing trend of sustainability reports. Many foreign companies write sustainability reports using GRI standards (N. Burhan & Rahmanti, 2012) [20]. In addition, PT Law No. 40 of 2007 is a regulation that regulates

sustainability reporting in Indonesia and states that companies that focus on natural resources and the like are required to fulfill their social and environmental obligations (Lesmana, 2014) [18]. Provisions relating to the Implementation of Sustainability Finance for Financial Services Institutions, Issuers, and Public Companies were also issued by OJK through Regulation No.51/POJK.03/2017. The regulation explains that every business activity that is not related to natural resources to make a sustainability report as a form of completeness of the annual report for the company. This is done by the government as a follow-up to its commitment to the issue of accountability related to the company's business operations that cause problems in environmental and social aspects. Although the issuance of sustainability reports is still optional, the number of companies that publish them continues to increase over time (Chariri & Nugroho, 2009) [7].

The publication of the company's sustainability report is proof of the company's accountability to stakeholders and the company's compliance with restrictions in carrying out its operational activities. Publication of the company's sustainability report is expected to increase stakeholder trust in the company. This happens because sustainability reports provide non-financial information to stakeholders and help reduce opportunism and unscrupulous manipulation of profits in decision-making (Rezaee & Tuo, 2019) [24]. Stakeholder trust such as efforts to invest and cooperate with the company can help the company to maintain its business activities. This trust has the potential to increase the company's sales and profitability which can improve its financial performance. A company can be said to have good financial performance and performance if the company's financial statements show an increase and are consistent over time (Safitri & Fidiana, 2015) [27].

Various studies have been conducted to explore the correlation between the publication of sustainability reports and the financial performance of a company. Lee *et al.* (2023) [17] on the relationship between quality sustainability reporting and corporate financial performance (CFP) shows

that there is an inverted U-shaped relationship between QSR and CFP under accounting-based measures while for inverted U-shaped relationships with market-based measures between QSR and CFP, no relationship is found. Research by Abbas *et al.* (2023) ^[1] showed that employee and product dimension sustainability reporting has a negative relationship with CFP assessed using the ROA ratio. Meanwhile, a significant positive correlation was also obtained between CFP and the community and environment components. The study conducted by Ebaid (2023) ^[11] explains that sustainability reporting in the dimensions of environment, health and safety, and social responsibility has a significant positive relationship with corporate financial performance.

Research by (Alhassan *et al.*, 2021) ^[3], reveals that financial performance increases significantly through sustainability reporting as indicated by economic, social, and environmental performance indicators. Not only that, (Pratiwi *et al.*, 2022) ^[23] also conducted research showing that the social and environmental dimensions in sustainability reports have a negative effect on financial performance, while the economic dimension in sustainability reports has a positive and significant impact on financial performance. In contrast, research by (Sari & Andreas, 2019) ^[28] explains that the economic, environmental, and social dimensions in sustainability reports have a negative effect on financial performance. Referring to the studies that have been carried out, there are differences and inconsistencies in research findings. The research period, dependent variables, and varying populations are the reasons for the different findings in the studies that have been conducted. To better understand the impact of sustainability report publication on corporate financial performance, an analysis was conducted on manufacturing companies listed on the Indonesia Stock Exchange between 2018 and 2022. The addition of green accounting variables is a differentiator in this research from previous studies. The addition was made because currently there are only a few studies that combine the variables of sustainability reports and green accounting on corporate financial performance. Based on the description above, this study aims to examine the effect of sustainability report disclosure and green accounting on company's financial performance.

Theoretical framework and hypothesis formulation

Stakeholder Theory

R. Edward Freeman is the originator of stakeholder theory which he coined in 1984. Stakeholders can be called a group of communities that can influence the success of an organization or company (Freeman & McVea, 2005) ^[14]. Stakeholders in this case relate to the character of the organization and how the organization should be conceptualized. According to Buallay (2020) ^[5], organizations should be viewed as a collection of stakeholders with the task of managing their interests, needs, and viewpoints. The main stakeholders of the company consist of customers, employees, investors, distributors, shareholders, competitors, society, founders of the organization, academics, government, and others. In this case, the company and stakeholders have a reciprocal relationship (Van der Laan Smith *et al.*, 2005) ^[31]. Stakeholders have the right to obtain information related to company activities that can lead to future decisions (Deegan, 2002) ^[8]. According to stakeholder theory, a

business entity is more than a single entity that operates for its benefit

s that apply in society (Dowling & Pfeffer, 1975) ^[10]. Thebut must benefit stakeholders. Support from stakeholders is needed by the company because it has a major impact on the existence and sustainability of the company (Gray *et al.*, 1995) ^[16]. Therefore, companies need to show their involvement and role to stakeholders as a form of accountable reports, especially about the implementation of environmental performance (Chariri & Ghozali, 2007) ^[6]. Based on stakeholder theory, the publication of green accounting is proof of the company's responsibility for the sustainability of the company. Companies that carry out environmental performance can form a positive image that drives investment decisions and improves the company's financial performance (Bahri & Cahyani, 2016) ^[4]. Environmental performance is a form of corporate responsibility for the sustainability of the company related to the publication of environmental cost allocations. In this case, the company consciously reports the costs incurred for allocation related to the environment as a result of the company's operational activities. Then, green accounting provides a framework for stakeholders for further decision-making.

Legitimacy Theory

This theory discusses the difference between the norms that exist in the company and the norm difference is called the legitimacy gap which can cause problems and affect the company or organization in carrying out its business activities. According to Tilling (2004) ^[30], legitimacy refers to the prevailing view or understanding that an entity's activities are acceptable, appropriate or consistent with a socially constructed framework. In legitimacy theory, companies try to ensure compatibility between their business activities and the boundaries and norms in the society in which the company operates (Ghozali, 2020). This statement is reinforced by Deegan (2004) ^[9] statement that companies must ensure that their operational activities are in line with applicable norms. Legitimacy theory provides direction for companies in carrying out their business activities so that the community around where the company operates can accept the business practices carried out by the company.

The foundation of this theory is the social contract between the company and the community, which is related to the utilization of resources in the environment around the company (Chariri & Ghozali, 2007) ^[6]. If the performance between the company and the community does not match, it can pose a threat to the legitimacy of the company (Lindblom, 1994) ^[19]. Companies that get legality from the community are characterized by the acceptance of the company's existence in the community. This legitimacy can be obtained by disclosing a sustainability report. In addition, publishing a sustainability report is one of the company's strategies for building a positive reputation in showing its concern for environmental and social issues. The publication of sustainability reports is a driver of cooperation that has the potential to improve the company's financial performance.

Framework

The framework explains the relationship between the independent variable and the dependent variable in this study.

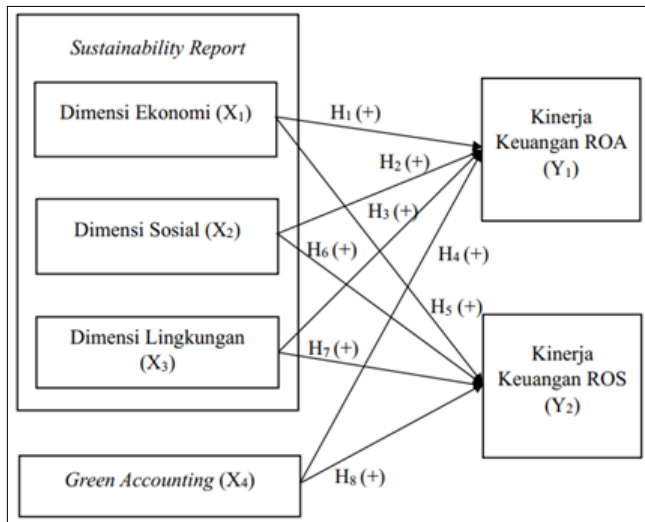


Fig 1: Framework

Hypothesis Formulation

The Effect of Economic Dimension Sustainability Report on Financial Performance (ROA)

The disclosure of the economic dimension sustainability report is related to how the company affects the financial condition of stakeholders as an effect of the company participating in economic development by prioritizing the principle of sustainability. Favorable company conditions attract investors to carry out investment activities in the company. Funding obtained from these investors can increase capital so that the company can develop its operational activities. Therefore, the increase in financial performance is influenced by an increase in the publication of economic dimension sustainability reports. This is closely related to the legitimacy theory that a business must ensure that its operational activities are in line with applicable norms (Deegan, 2004) [9]. Legitimacy theory provides strategies for companies in carrying out their business activities so that the company's business practices can be accepted by society. The strategy is obtained from the reputation formed by the company through the publication of the economic dimension sustainability report.

Investor interest in investing depends on how much influence the company has in improving the surrounding economy. The greater the company's influence on improving the surrounding economy, the greater the investor's interest in making investment decisions. Thus, financial performance is positively correlated with the disclosure of economic dimension sustainability reports. Previous research revealed a positive influence between economic performance sustainability reports and financial performance calculated using ROA (Alhassan *et al.*, 2021) [3]. Therefore, the hypothesis is proposed as below

H1: Economic dimension sustainability report has a positive effect on financial performance (ROA)

The Effect of Social Dimension Sustainability Report on Financial Performance (ROA)

The need for social information is increasingly related to the company's responsibility in managing reputation and stakeholder concerns so that the disclosure of social dimension sustainability reports appears. The issuance of a social dimension sustainability report shows that the company has a responsibility obligation to the norms and

restrictions that apply in the surrounding community where the company operates. This is related to legitimacy theory in which companies seek to ensure compatibility between their business activities and the norms and limits adopted by the surrounding community where the company operates (Ghozali, 2020) [15]. Publication of social performance is expected to form recognition from the surrounding community and the company's good reputation in the eyes of the public. This triggers investors to invest so that it can make financial performance better. Previous research, namely research by (Alhassan *et al.*, 2021) [3] explains the positive influence between social dimension sustainability reports and financial performance (ROA). Therefore, the hypothesis is proposed as below

H2: Social dimension sustainability report has a positive effect on financial performance (ROA)

Effect of Environmental Sustainability Report on Financial Performance (ROA)

Based on legitimacy theory, the social contract between the company and the community relating to the use of resources in the environment around the company is the basis for this theory (Chariri & Ghozali, 2007) [6]. If the performance between the company and the community does not match, it can pose a threat to the legitimacy of the company (Lindblom, 1994) [19]. Companies that gain legitimacy from society are characterized by the acceptance of the company's existence amid society. To gain legitimacy from the community, companies publish sustainable reports, one of which is related to the environmental dimension. Environmental dimension sustainability reports are used as evidence of the company's responsibility for the environment in which the company conducts its business activities. Research by Abbas *et al.* (2023) [1], Alhassan *et al.* (2021) [3], dan Ebaid (2023) [11] explain the positive influence between environmental dimension sustainability reports and financial performance (ROA). Therefore, the following hypothesis is proposed

H3: Environmental dimension sustainability report has a positive effect on financial performance (ROA)

The Effect of Green Accounting on Financial Performance (ROA)

Green accounting focuses on providing information related to the environment, such as cost allocation with environmental obligations and other related costs. Green accounting has the main objective of providing reports on activities related to the environment to minimize the negative impact of the company's operational activities. The allocation of environmental costs has the effect of increasing the interest of stakeholders. Based on stakeholder theory, companies must operate to benefit stakeholders, not just for their benefit (Chariri & Ghozali, 2007) [6]. The allocation of environmental costs disclosed in green accounting can foster a positive reputation of the company which can then attract investors to invest. Research (Endiana *et al.*, 2020) [13] explains the positive effect of green accounting on financial performance (ROA). Therefore, the following hypothesis is proposed

H4: Green accounting has a positive effect on financial performance (ROA)

Effect of Economic Dimension Sustainability Report on Financial Performance (ROS)

The publication of economic performance makes a useful guide for investors in taking the right steps to invest in a company. This hypothesis is in line with legitimacy theory in which companies seek to ensure compatibility between their business activities and the norms and restrictions adopted by the surrounding community where the company operates (Ghozali, 2020) ^[15]. Legitimacy theory provides strategies for companies in carrying out their business activities so that the company's business practices can be accepted by society. This strategy can be formed by companies through the publication of economic performance sustainability reports. This publication is one of the reasons for stakeholders to make business decisions. A company that has a greater influence on the surrounding economy can attract investors and customers to make business decisions to increase sales. This statement is supported by research by Lee *et al.* (2023) ^[17] which explains the positive correlation between quality sustainability reporting in the economic dimension and corporate financial performance proxied using ROS. Therefore, the following hypothesis is proposed

H₅: Economic dimension sustainability report has a positive effect on financial performance (ROS)

Effect of Social Dimension Sustainability Report on Financial Performance (ROS)

Publication of labor practices and work comfort that discusses recruitment procedures and employee comfort levels is one form of social dimension disclosure. The company's treatment of employees and employee comfort are things that are seen by potential investors and customers. The publication of social performance is a form of accountability for the risks to employees that can occur. With the publication of social performance, investors and customers can find out how much the company is responsible for the costs arising from the risks that occur. Legitimacy theory is consistent with this in that companies must ensure that their operations are in line with prevailing norms (Deegan, 2004) ^[9]. A company's sales increase when a social dimension sustainability report is published. This statement is supported by research by Lee *et al.* (2023) ^[17] which explains the positive correlation between quality sustainability reporting in the social dimension and corporate financial performance proxied using ROS. Therefore, the following hypothesis is proposed

H₆: Social dimension sustainability report has a positive effect on financial performance (ROS)

Effect of Environmental Dimension Sustainability Report on Financial Performance (ROS)

The company shows its responsibility for the environment by publishing an environmental dimension sustainability report. In this publication, there are total complaints about the impact on the environment due to the company's operational activities. With the publication of the environmental dimension, investors and consumers can ascertain the extent to which the company is responsible and able to pay costs related to environmental damage due to the company's operational activities. In line with the concept of legitimacy theory which reveals that companies strive to ensure compatibility between their business activities and

the limits and norms adopted by society (Ghozali, 2020) ^[15]. This can foster a positive image in the eyes of stakeholders. Potential investors have more confidence in the company if the environmental dimension sustainability report is good and satisfying. Previous research explains the positive correlation between quality sustainability reporting in the environmental dimension and corporate financial performance proxied using ROS (Lee *et al.*, 2023) ^[17]. Therefore, the following hypothesis is proposed

H₇: Environmental dimension sustainability report has a positive effect on financial performance (ROS)

The Effect of Green Accounting on Financial Performance (ROS)

Based on stakeholder theory, information needs related to company activities are the right of stakeholders to determine future decisions (Deegan, 2002) ^[8]. Support from stakeholders is needed by the company because it has a major impact on the sustainability of the company (Gray *et al.*, 1995) ^[16]. Therefore, the company needs to show its role to stakeholders as a form of accountable report, especially about environmental performance (Chariri & Ghozali, 2007) ^[6]. In this case, companies that carry out environmental performance can form a positive image that drives investment decisions and improves the company's financial performance (Bahri & Cahyani, 2016) ^[4]. This environmental performance is a form of corporate responsibility for the sustainability of the company related to financial information in green accounting, one of which is the publication of environmental cost allocations. Companies that are environmentally oriented and allocate environmental costs to the maximum can attract customers to increase sales and increase profits. This trust can support the stability of corporate profits and increase the ROS value of a company. Thus, the following hypothesis is proposed

H₈: Green accounting has a positive effect on financial performance (ROS)

Research Method

Population and Sample

This research was conducted on manufacturing companies on the Indonesia Stock Exchange in 2018-2022 that published sustainability reports and annual reports with 33 research samples obtained. The sampling method used is a purposive sampling technique by adjusting the predetermined objective criteria.

Variables and Their Measurements

This study consisted of 4 independent variables, such as sustainability report disclosure of economic dimensions, social dimensions, environmental dimensions, and green accounting. The dependent variable, namely financial performance which are provided by ROA and ROS.

a. Dependent Variable

ROA measured with total net income divided by total assets of company.

ROS measured with earnings before interest and tax divided by sales of the company.

b. Independent Variable

Sustainability report economic, social, and environmental dimensions are measured with published indicators divided

by the indicators expected by the company. Meanwhile, green accounting is measured by environmental cost divided by the company's net profit.

Analysis Model

This study uses multiple linear regression analysis methods with IBM SPSS 26. This study has two regression models, as follows

$$a. ROA = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$$

$$b. ROS = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$$

Information

- α = Constant
- β = Regression coefficient
- X_1 = Economic dimension
- X_2 = Social dimension
- X_3 = Environmental dimension
- X_4 = Green accounting
- e = Error

Research Results and Discussion

Descriptive of the Research Sample

This study uses a purposive sampling method with criteria, namely manufacturing companies on the Indonesia Stock Exchange that publish annual reports and sustainability reports sequentially from 2018-2022, companies that do not record losses in annual reports sequentially from 2018-2022, and removal of outlier data. Based on these criteria, 33 research samples were obtained.

Descriptive Statistics

Table 1: Statistic Descriptive

	N	Min	Max	Mean	Std. Dev
Economic Dimension	33	0,222	0,778	0,4545	0,1723
Social Dimension	33	0,063	0,563	0,2873	0,1151
Environmental Dimension	33	0,029	0,735	0,3564	0,1913
Green Accounting	33	0,003	0,085	0,0269	0,0219
ROA	33	0,009	0,199	0,0657	0,0426
ROS	33	0,027	0,298	0,1148	0,0555
Valid N (listwise)	33				

Source: Secondary data processed, 2024

Based on Table 1, it can be seen that this study has a total sample of 33 manufacturing companies. The economic dimension sustainability report disclosure variable has a minimum value of 0.222, a maximum value of 0.778, a standard deviation value of 0.1723, and an average value of 0.4545. The social dimension sustainability report disclosure variable has a minimum value of 0.063, a maximum value of 0.563, a standard deviation value of 0.1151, and an average value of 0.2873. The environmental dimension sustainability report disclosure variable has a minimum value of 0.029, a maximum value of 0.735, a standard deviation value of 0.1913, and an average value of 0.3564. The green accounting variable has a minimum value of 0.003, a maximum value of 0.085, a standard deviation value of 0.0219, and an average value of 0.0269. ROA has a minimum value of 0.009, a maximum value of 0.199, a standard deviation value of 0.0426, and an average value of 0.0657. ROS has a minimum value of 0.027, a maximum value of 0.298, a standard deviation value of 0.0555, and an average value of 0.1148. These variables are homogeneous

because the standard deviation value obtained is lower than the mean value.

Determination Coefficient Test

Table 2: Determination Coefficient Test

	R	R Square	Adjusted R Square	Std. Error of the Estimate
ROA	0.662	0.438	0.358	0.034190
ROS	0.626	0.392	0.306	0.046326

Source: Secondary data processed, 2024

Referring to Table 2, the coefficient of determination of ROA is 0.358, in which case ROA is explained 36% by the sustainability reports of the economic dimension, social dimension, environmental dimension, and green accounting while the remaining 64% is explained by other components and is not included in the regression model. The coefficient of determination of ROS is 0.306. This explains that ROS is explained by 31% by sustainability reports in the economic dimension, social dimension, environmental dimension, and green accounting while the remaining 69% is explained by other aspects and is not included in the regression model.

F-Test Result

Table 3: F-Test Result

		Sum of Square	Df	Mean Square	F	Sig.
ROA	Regression	0.026	4	0.006	5.463	0.002
	Residual	0.033	28	0.002		
	Total	0.058	32			
ROS	Regression	0.039	4	0.010	4.519	0.006
	Residual	0.060	28	0.002		
	Total	0.099	32			

Source: Secondary data processed, 2024

Based on Table 3, the F significance score for ROA is 0.002 and ROS is 0.006. Both values are <0.05, so it can be concluded that this research regression model can project ROA and ROS of a company. In other words, the variables of economic dimension, social dimension, environmental dimension, and green accounting simultaneously affect ROA and ROS.

T-Test Result

Table 4: T-Test Result (ROA)

Variable	B	t	Sig.
(Constant)	0.148	6.563	0.000
Economic Dimension	-0.058	-1.265	0.216
Social Dimension	0.162	2.289	0.030
Environmental Dimension	0.068	1.792	0.084
Green Accounting	1.222	3.996	0.001

Source: Secondary data processed, 2024

Based on the results of the ROA T-test in Table 4, it is known that the significance value of the economic dimension sustainability report and the environmental dimension has a significance value greater than 0.05 so it can be concluded that the economic dimension sustainability report and the environmental dimension have no influence on the company's financial performance based on ROA. The social dimension and green accounting sustainability report variables have a significance value of less than 0.05 and a

positive B value so it can be concluded that these two variables have a positive effect on ROA.

Table 5: T-Test Result (ROS)

Variable	B	T	Sig.
(Constant)	0.207	6.799	0.000
Economic Dimension	-0.073	-1.165	0.254
Social Dimension	0.289	3.017	0.005
Environmental Dimension	0.122	2.382	0.024
Green Accounting	-0.729	-1.760	0.089

Source: Secondary data processed, 2024

Based on the results of the ROS T-test in Table 5, it is known that the social dimension and environmental dimension sustainability report variables have a significance value of less than 0.05 and a positive B value so it can be concluded that these two variables have a positive effect on ROS. However, the significance value of the economic dimension sustainability report and the environmental dimension has a significance value greater than 0.05 so it can be concluded that the economic dimension sustainability report and green accounting have no influence on the company's financial performance based on ROS.

Discussion

The Effect of Economic Dimension Sustainability Report on Financial Performance (ROA)

The test results in Table 4 show that the economic dimension sustainability report has a significance level of 0.216. These results indicate that the disclosure of economic dimension sustainability reports does not affect financial performance (ROA) so H₁ is rejected. These results are not in line with legitimacy theory, which suggests that companies must show their concern and participation in ensuring that their operations are in line with applicable norms (Deegan, 2004) ^[9]. Existing research shows that investors are attracted to companies with strong return on assets and are less interested in economic dimension sustainability report disclosure. This conclusion is reinforced by the fact that companies with lower levels of economic dimension sustainability report disclosure will have a better return on assets (ROA) than companies with higher levels of economic dimension sustainability report disclosure. This research is in line with the research of Nofianto (2014) ^[22] dan Sari & Andreas (2019) ^[28] which shows that the economic dimension sustainability report does not influence financial performance (ROA). However, the research of Alhassan *et al.* (2021) ^[3] is not in line with this research which suggests that the economic dimension of sustainability report has a positive effect on financial performance (ROA).

The Effect of Social Dimension Sustainability Report on Financial Performance (ROA)

The test results in Table 4 show that the social dimension sustainability report has a significance level of 0.030 and a positive B value. These results indicate that the disclosure of social dimension sustainability reports has a positive effect on financial performance (ROA) so H₂ is accepted. This research is by legitimacy theory in which companies seek to ensure the compatibility between their business activities and the norms and limits adopted by the surrounding community where the company operates (Ghozali, 2020) ^[15]. Disclosure of the social dimension sustainability report

can form recognition from the surrounding community so that the company is considered legitimate and accepted by the community. In this case, companies that publish social dimension sustainability reports are responsible for the prevailing norms. In other words, the company takes into account the emergence of risks as a result of the products produced by the company's business activities. As a result, public perception of the company may increase which helps the company generate more profits and improve its financial performance. The research results of Alhassan *et al.* (2021) ^[3] are in line with this study which suggests that the publication of social dimension sustainability reports has a positive influence on financial performance (ROA). However, the findings of this study are not in line with the research of Nofianto (2014) ^[22] dan Sari & Andreas (2019) ^[28] which show that the social dimension sustainability report does not affect financial performance (ROA).

The Effect of Environmental Dimension Sustainability Report on Financial Performance (ROA)

The test results in Table 4 show that the environmental dimension sustainability report has a significance level of 0.084. These results indicate that the disclosure of environmental sustainability reports does not affect financial performance (ROA) so H₃ is rejected. The impact of disclosing environmental sustainability reports on the financial performance of a company is gradual so it is not visible in the short term. Adams *et al.* (2012) ^[2] state that sustainability reports ultimately have an impact on market response and company value in the long term. The insignificant disclosure of the environmental dimension of sustainability reports on financial performance is not by legitimacy theory which reveals that a form of corporate responsibility for the environment is carried out by the company by showing its concern and participation in managing the environment (Simbolon & Sueb, 2016) ^[29].

Based on existing findings, the number of complaints about environmental impacts in the environmental dimension of the sustainability report is an additional cost for companies that can result in a decrease in assets. The environmental dimension sustainability reports published by several companies in Indonesia only aim to increase their profits. This is contrary to the fact that the environmental conditions in Indonesia are increasingly damaged due to the company's operational activities. The results of this research are by the research of Sari & Andreas (2019) ^[28] which reveals that environmental dimension sustainability report does not affect the company's financial performance (ROA). In contrast, the research Abbas *et al.* (2023) ^[1], Alhassan *et al.* (2021) ^[3], Ebaid (2023) ^[11] reveals that the environmental dimension sustainability report has a positive influence on financial performance (ROA).

The Effect of Green Accounting on Financial Performance (ROA)

The test results in Table 4 show that green accounting has a significance level of 0.001 and a positive B value. These results indicate that green accounting has a positive effect on financial performance (ROA) so H₄ is accepted. The findings of this research are by stakeholder theory which reveals that companies operate to benefit stakeholders, not just for their benefit (Chariri & Ghozali, 2007) ^[6]. Companies that implement green accounting can show good environmental performance so it has an impact on good

financial performance as well. The effect of green accounting on financial performance can be observed in terms of revenue and costs. Increased implementation of green accounting in manufacturing companies in Indonesia can maximize potential revenue and increase efficiency in terms of costs (Endiana *et al.*, 2020) ^[13]. The allocation of environmental costs as a proxy for green accounting is a signal that the company is committed to providing information related to environmental aspects. This can increase the trust of stakeholders such as the public and consumers who are then able to improve financial performance (ROA). The results of research by Endiana *et al.* (2020) ^[13] are in line with this research which explains that green accounting has a significant positive effect on financial performance (ROA). However, research by Riyadh *et al.* (2020) ^[25] and Yuyu *et al.* (2023) ^[33] obtained different results where green accounting has a negative effect on financial performance.

The Effect of Economic Dimension Sustainability Report on Financial Performance (ROS)

The test results in Table 5 show that the economic dimension sustainability report has a significance level of 0.254. These results indicate that the disclosure of economic dimension sustainability reports does not affect financial performance (ROS) so H_5 is rejected. The period used in this study is still relatively short. According to Adams *et al.* (2012) ^[2], a significant positive effect between sustainability reports on financial performance can be obtained when the research period is carried out in the long term. The insignificant disclosure of the economic dimension sustainability report on the company's financial performance is not by the concept of legitimacy theory which reveals that the company seeks to ensure compatibility between its business activities and the norms and restrictions adopted by the surrounding community where the company operates (Ghozali, 2020) ^[15]. Existing research shows that investors are interested in companies with a strong return on sales and are less interested in disclosing the economic dimension of sustainability reports. If the performance between the company and society does not match, it can pose a threat to the company's legitimacy (Lindblom, 1994) ^[19]. The disclosure of low economic dimension sustainability report items and the company's focus only on increasing profits can reduce the legitimacy of the community to the company so that the company's existence amid society is less accepted. The research findings of Lee *et al.* (2023) ^[17] are not in line with the findings of this study which reveal that quality sustainability reporting in the economic dimension has a positive effect on corporate financial performance (ROS).

The Effect of Social Dimension Sustainability Report on Financial Performance (ROS)

The test results in Table 5 show that the social dimension sustainability report has a significance level of 0.005 and a positive B value. These results indicate that the disclosure of social dimension sustainability reports has a positive effect on financial performance (ROS) so H_6 is accepted. Based on the results of the analysis, this study is by legitimacy theory which states that companies must ensure that their operations are in line with prevailing norms (Deegan, 2004) ^[9]. This theory asserts that high sustainability report disclosure is a means of balancing threats to corporate

legitimacy and other changes in the business environment (Gray *et al.*, 1995) ^[16]. In this case, companies that publish social performance sustainability reports provide information related to labor practices and employee comfort. The existence of the company will be accepted by the community if the company discloses its sustainability report well (Wibowo & Faradiza, 2014) ^[32]. The good treatment and comfort of employees is a form of corporate responsibility for the risks of workers who can increase the company's credibility in front of stakeholders. The results in this research are by the research of Lee *et al.* (2023) ^[17] which reveals that quality sustainability reporting in the social dimension has a positive effect on corporate financial performance (ROS).

The Effect of Environmental Dimension Sustainability Report on Financial Performance (ROS)

The test results in Table 5 show that the environmental dimension sustainability report has a significance level of 0.024 and positive B value. These results indicate that the disclosure of environmental sustainability reports has a positive effect on financial performance (ROS) so H_7 is accepted. The findings of this study are in line with legitimacy theory which states that companies try to ensure compatibility between their business activities and the limits and norms adopted by society (Ghozali, 2020) ^[15]. The company's concern and participation in managing the environment must be shown by the company as a form of corporate responsibility for the environment (Simbolon & Sueb, 2016) ^[29]. Based on existing findings, the company's potential to generate profits can be determined by how much the company publishes environmental dimension sustainability reports, which are related to the company's responsibility regarding the impact of the company's business operational activities on the environment. Companies will try to ensure that their activities and performance are accepted by the public along with increasing public awareness and attention (Abbas *et al.*, 2023) ^[1]. The more widely the company publishes sustainability reports on the environmental dimension, the more interested stakeholders will be in making business decisions. The findings of this study are by the research of Lee *et al.* (2023) ^[17] which explains that quality sustainability reporting in the environmental dimension has a positive effect on corporate financial performance (ROS).

The Effect of Green Accounting on Financial Performance (ROS)

The test results in Table 5 show that green accounting has a significance level of 0.089. These results indicate that green accounting does not affect financial performance (ROS) so H_8 is rejected. Stakeholder theory is not in line with this study, which reveals that information needs related to company activities are the right of stakeholders for future decisions (Deegan, 2002) ^[8]. Support from stakeholders is needed by the company because it has a major impact on the sustainability of the company (Gray *et al.*, 1995) ^[16]. Therefore, the company needs to demonstrate its role to stakeholders as a form of accountable reporting, especially about the environment (Chariri & Ghozali, 2007) ^[6]. The company considers the costs it incurs including the allocation of environmental costs to increase corporate profits. This indicates that the company is more focused on increasing profits and ignoring its role in the environment.

Stakeholders pay attention to information related to company activities in determining their business decisions, including the costs incurred for environmental activities. If the company considers all the costs it incurs, one of which is environmental costs, public trust may decrease which results in decreased sales and operating profits.

Conclusion and Limitations

Conclusion

The purpose of this study was to determine the effect of disclosure of sustainability reports and green accounting on the company's financial performance in terms of ROA and ROS. The research sample consists of 33 manufacturing companies listed on the Indonesia Stock Exchange in 2018-2022. Based on the results of testing and analysis, it is obtained that the economic and environmental dimensions of the sustainability report variable do not affect ROA, while the social dimension of the sustainability report and green accounting variables have a positive effect on ROA. Furthermore, the economic dimension of the sustainability report and green accounting variables do not affect ROS while the social and environmental dimension sustainability report variables have a positive effect on ROS.

Limitations

This study has several limitations, such as (1) The study only consists of 33 samples due to the small number of manufacturing companies that publish annual reports and sustainability reports. (2) The ability of independent variables to influence the dependent variable still tends to be low because this study has not considered other factors that can increase this ability.

Suggestions

Future research can answer some of the limitations of this study. Future research can utilize companies from industries other than manufacturing and consider other variables in this regression model such as leverage, company size, and capital intensity.

References

1. Abbas YA, Mehmood W, Ali A, Aman-Ullah A. Sustainability reporting and corporate financial performance of IPOs: witnessing emerging market. *Environmental Science and Pollution Research*, 2023, 1–12.
2. Adams M, Thornton B, Sepehri M. The impact of the pursuit of sustainability on the financial performance of the firm. *Journal of Sustainability and Green Business*, 2012;1(1):1–14.
3. Alhassan I, Islam KMA, Haque MS. Sustainability reporting and financial performance of listed industrial goods sector in Nigeria. *International Journal of Accounting & Finance Review*, 2021;9(1):46–56.
4. Bahri S, Cahyani FA. Pengaruh Kinerja Lingkungan Terhadap Corporate Financial Performance dengan Corporate Social Responsibility Disclosure sebagai Variabel Intervening (Studi Empiris pada Perusahaan Manufaktur yang Terdaftar di BEI). *Ekonika: Jurnal Ekonomi Universitas Kadiri*, 2016, 1(2).
5. Buallay AM. Sustainability reporting and bank's performance: comparison between developed and developing countries. *World Review of Entrepreneurship, Management and Sustainable Development*, 2020;16(2):187–203.
6. Chariri A, Ghazali I. *Teori akuntansi*. Semarang: Badan Penerbit Universitas Diponegoro, 2007, 409.
7. Chariri A, Nugroho FA. *Retorika Dalam Pelaporan Corporate Social Responsibility: Analisis Semiotikatas Sustainability Reporting PT Aneka Tambang Tbk*, 2009.
8. Deegan C. Introduction. *Accounting, Auditing & Accountability Journal*, 2002;15(3):282–311. Available from: <https://doi.org/10.1108/09513570210435852>
9. Deegan C. *Financial Accounting Theory*. McGraw-Hill Australia Pty Ltd, 2004.
10. Dowling J, Pfeffer J. Organizational legitimacy: Social values and organizational behavior. *Pacific Sociological Review*, 1975;18(1):122–136.
11. Ebaid IE S. Nexus between sustainability reporting and corporate financial performance: evidence from an emerging market. *International Journal of Law and Management*, 2023;65(2):152–171.
12. Elkington J, Rowlands IH. Cannibals with forks: The triple bottom line of 21st century business. *Alternatives Journal*, 1999;25(4):42.
13. Endiana IDM, Dicriyani NLG, Adiyadnya MSP, Putra IPMJS. The effect of green accounting on corporate sustainability and financial performance. *The Journal of Asian Finance, Economics and Business (JAFEB)*, 2020;7(12):731–738.
14. Freeman RE, McVea J. A stakeholder approach to strategic management. *The Blackwell Handbook of Strategic Management*, 2005, 183–201.
15. Ghazali I, 25 Grand Theory. *Badan Penerbit Universitas Diponegoro*, 2020.
16. Gray R, Kouhy R, Lavers S. Corporate social and environmental reporting. *Accounting, Auditing & Accountability Journal*, 1995;8(2):47–77. Available from: <https://doi.org/10.1108/09513579510146996>
17. Lee SWA, Rodrigs M, Nathan TM, Rashid MA, Al-Mamun A. The Relationship Between the Quality of Sustainability Reporting and Corporate Financial Performance: A Cross-Sectional and Longitudinal Study. *Australasian Accounting, Business and Finance Journal*, 2023;17(2):38–60.
18. Lesmana Y. Pengaruh Sustainability Reporting Terhadap Kinerja Keuangan Perusahaan Publik dari Sisi Asset Management Ratios. *Business Accounting Review*, 2014;2(1):101–110.
19. Lindblom CK. The implications of organizational legitimacy for corporate social performance and disclosure. *Critical Perspectives on Accounting Conference: 1994: New York*, 1994.
20. N. Burhan AH, Rahmanti W. The Impact of Sustainability Reporting on Company Performance. *Journal of Economics, Business, and Accountancy Ventura*, 2012;15(2):257. Available from: <https://doi.org/10.14414/jebav.v15i2.79>
21. Natalia R. Pengaruh sustainability reporting terhadap kinerja keuangan perusahaan publik dari sisi profitability ratio. *Business Accounting Review*, 2014;2(1):111–120.
22. Nofianto E. Analisis pengaruh sustainability report terhadap kinerja keuangan perusahaan. *Accounting Analysis Journal*, 2014, 3(3).

23. Pratiwi A, Laila KZ, Anondo D. Pengaruh Pengungkapan Sustainability Report Terhadap Kinerja Keuangan Perusahaan Perbankan di Indonesia. *Jurnal Akuntansi Terapan Dan Bisnis*,2022;2(1):60–71.
24. Rezaee Z, Tuo L. Are the Quantity and Quality of Sustainability Disclosures Associated with the Inne and Discretionary Earnings Quality? *Journal of Business Ethics*,2019;155(3):763–786. Available from: <https://doi.org/10.1007/s10551-017-3546-y>
25. Riyadh HA, Al Shmam MA, Huang HH, Gunawan B, Alfaiza SA. The analysis of green accounting cost impact on corporation's financial performance. *International Journal of Energy Economics and Policy*,2020;10(6):421–426.
26. Romero S, Ruiz S, Fernandez-Feijoo B. Sustainability reporting and stakeholder engagement in Spain: Different instruments, different quality. *Business Strategy and the Environment*,2019;28(1):221–232. Available from: <https://doi.org/10.1002/bse.2251>
27. Safitri DA, Fidiana F. Sustainability Report Terhadap Kinerja Keuangan Dan Pasar. *Jurnal Ilmu Dan Riset Akuntansi (JIRA)*, 2015, 4(4).
28. Sari IAP, Andreas HH. Pengaruh pengungkapan sustainability reporting terhadap keuangan perusahaan di indonesia. *International Journal of Social Science and Business*,2019;3(3):206–214.
29. Simbolon J, Sueb M. Pengaruh Pengungkapan Sustainability Report Terhadap Kinerja Keuangan Perusahaan (Studi Empiris pada Perusahaan Tambang dan Infrastruktur Subsektor Energi yang Terdaftar di BEI Tahun 2010-2014). Paper Simposium Nasional Akuntansi XIX: 2016: Lampung, 2016.
30. Tilling MV. Some thoughts on legitimacy theory in social and environmental accounting. *Social and Environmental Accountability Journal*,2004;24(2):3–7. Available from: <https://doi.org/10.1080/0969160X.2004.9651716>
31. Van der Laan Smith J, Adhikari A, Tondkar RH. Exploring differences in social disclosures internationally: A stakeholder perspective. *Journal of Accounting and Public Policy*,2005;24(2):123–151.
32. Wibowo I, Faradiza SA. Dampak pengungkapan sustainability report terhadap kinerja keuangan dan pasar perusahaan, 2014.
33. Yayu Y, Wahyudi W, Damayanti D, Eka F, Arsita A, Razak L. Pengaruh Green Accounting Terhadap Kinerja Keuangan Perusahaan. *Bata Ilyas Journal of Accounting*, 2023, 4(1).