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UNLOCKING VALUE THROUGH SUSTAINABILITY: ASSESSING THE IMPACT OF GREEN ACCOUNTING ON CORPORATE FINANCIAL PERFORMANCE WITH ESG SCORES AS A MEDIATING VARIABLE

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Abstract

This research investigates the impact of implementing green accounting practices on the financial performance of corporations, with corporate reputation, proxied by ESG scores, as an mediating variable. Utilizing a quantitative methodology, this study analyzes secondary data sourced from the 2024 annual and sustainability reports of cross-industry companies listed on the Indonesia Stock Exchange. Green accounting is operationalized through four key dimensions: environmental cost disclosures, waste management, energy efficiency, and environmental investments. Financial performance is assessed utilizing ROA, while the mediating effect of ESG reputation is tested through path analysis and the Sobel test to evaluate both direct and indirect relationships. The findings aim to determine whether ESG performance amplifies the financial impact of sustainability practices and to offer strategic insights for firms seeking to balance environmental accountability with profitability.

Keywords: ESG Score, Financial Performance, Green Accounting, Indonesia Stock Exchange, Sustainability Reporting

Introduction

Environmental degradation has emerged as a global concern, prompting stricter regulations and heightened public scrutiny, particularly for industries with significant ecological footprints. The mining and energy sectors are especially affected due to intensive resource extraction and high greenhouse gas emissions. Consequently, firms in these industries are expected not only to comply with environmental standards but also to demonstrate proactive sustainability initiatives. Environmental disclosures, that covering emissions, waste management, and resource usage, are no longer voluntary but integral to corporate accountability frameworks. This paradigm shift reflects broader global trends driven by environmental awareness, investor activism, as well as global frameworks including the Paris Agreement.

In response, the notion of green accounting, also known as environmental accounting, has increasingly garnered attention. This framework incorporates environmental costs within financial reporting to present a more comprehensive assessment of corporate performance. Nonetheless, despite its rising prevalence, the financial implications of green accounting remain ambiguous, with some research indicating a favourable association between environmental expenditures and financial results, while others report neutral or even negative effects, especially in the short term. These discrepancies highlight the need for deeper investigation into the mechanisms by which green accounting may contribute to enhanced profitability.

One such mechanism is corporate reputation, particularly through Environmental, Social, and Governance (ESG) performance. According to signalling theory, voluntary environmental disclosures signal long-term commitment and operational stability to stakeholders. These signals can build stakeholder trust and investor confidence, ultimately influencing capital access and customer loyalty.

Additionally, stakeholder theory emphasizes that responding to stakeholder concerns, especially for environmental ones, can create competitive advantage and economic returns. Thus, a firm's reputation as an environmentally responsible entity may serve as a crucial mediating variable between sustainability practices and financial performance.

Despite its theoretical appeal, the mediating role of reputation remains empirically underexplored in Indonesian industrial contexts, particularly in high-impact sectors. Existing studies often emphasize the direct effects of sustainability disclosures or ESG ratings on profitability, neglecting the indirect pathways shaped by stakeholder perceptions. Moreover, research in emerging economies like Indonesia faces challenges such as inconsistent reporting standards, varying stakeholder expectations, and data reliability issues. These challenges complicate the assessment of whether the benefits of green accounting are inherent or contingent on public

perception and sectoral maturity. This research gap provides a compelling rationale for explicitly investigating corporate reputation as a mediating construct.

Accordingly, this research endeavors to unravel the complex interconnections between green accounting implementation, the cultivation of corporate reputation, and their combined effects on financial performance specifically within Indonesia's mining and energy sectors. It aims to enrich academic discourse on sustainability accounting while offering actionable insights. This is aligned with legitimacy theory, which posits that organizations seek to legitimize their operations through disclosures aligned with societal norms. By adopting green accounting and cultivating a strong ESG profile, firms not only legitimize their existence but also potentially strengthen their financial standing. Understanding these dynamics is critical for companies striving to balance ecological responsibility with shareholder value creation

Research Objectives

This investigation seeks to offer empirical insights into the impact of adopting green accounting practices on corporate financial performance within the mining and energy sectors. By embedding environmental costs into conventional financial analyses, green accounting potentially shapes operational efficiency, risk assessment, and investor trust. Employing a quantitative framework, the study assesses whether environmentally sustainable practices contribute to enhanced profitability, as reflected by metrics such as ROA. Additionally, it explores the degree to which green accounting affects corporate reputation, with particular emphasis on ESG ratings. A further critical objective involves examining the mediating role of corporate reputation in the nexus between green accounting implementation and financial performance outcomes. Mediation analysis enables a deeper understanding of not just *if* green accounting impacts profitability, but *how* these effects are transmitted. Specifically, this research explores ESG-based reputation as an intermediary that enhances both actual and perceived value from environmental investments. This mediating role is especially relevant for environmentally sensitive sectors where public perception significantly influences market access, brand loyalty, and funding opportunities. Ultimately, this study aims to inform corporate leaders, policymakers, and investors about the financial and reputational implications of sustainability practices.

This study is anchored in three core theoretical perspectives:

1. **Legitimacy Theory** posits that firms seek societal approval by aligning their activities with prevailing norms and environmental expectations. In high-impact sectors, green accounting serves as a strategic tool to gain public acceptance and mitigate reputational risks.
2. **Stakeholder Theory** highlights that corporate success depends on managing relationships engaging a broad spectrum of stakeholders, including investors, customers, local communities, and regulatory bodies. As these groups progressively emphasize the importance of sustainability and corporate accountability, green accounting becomes a vehicle for building trust and legitimacy. ESG performance reflects the tangible outcomes of stakeholder engagement.
3. **Signaling Theory** articulates how companies leverage disclosures to communicate intangible attributes to the market. Within this framework, a robust ESG profile serves as an indicator of proficient management, proactive environmental risk management, and a sustained focus on long-term strategic objectives. These signals reduce information asymmetry and enhance firm valuation. "According to signaling theory, the disclosures made by a company may serve as either favorable or unfavorable signals that influence how the market perceives the firm" (Yuliangga & Arreski, 2024).

Together, these theories provide a robust framework to understand how green accounting can bolster corporate reputation and, in turn, improve financial performance. Green accounting integrates environmental considerations into financial reporting to more accurately reflect corporate sustainability. While some studies report improved financial outcomes linked to environmental disclosures, others find negligible or delayed effects. The role of ESG as both an outcome of green accounting and a potential mediator in enhancing firm profitability is increasingly recognized, especially in high-resource industries like mining and energy. ESG reputation is found to reduce investor risk perceptions, improve access to capital, and foster brand loyalty factors contributing to better financial metrics such as ROA or ROE. According to Dwicahyani & Nugroho (2024), the integration of green accounting practices alongside stronger environmental performance contributes positively to a firm's financial results.

Methods

This research employs a quantitative, explanatory design aimed at elucidating the causal linkages among green accounting practices, ESG reputation, and financial performance. The analysis employs path modeling and Sobel testing using SPSS software to assess both direct and indirect effects.

- **Independent Variable:** Green Accounting, measured through indicators such as environmental cost disclosures, waste management practices, energy efficiency, and investments in eco-friendly initiatives.
- **Mediating Variable:** Corporate Reputation, proxied by ESG scores representing public and investor perceptions of the firm's sustainability efforts.
- **Dependent Variable:** Financial Performance, quantified through ROA, serving as a metric for the firm's effectiveness in converting total asset investments into profit.

These variables are modelled to test the mediating role of ESG in the green accounting–profitability nexus.

The study utilizes secondary data from annual reports, sustainability reports, and ESG ratings of selected companies. Financial data including ROA and environmental expenditures are extracted from audited financial statements for the fiscal year 2024. The population comprises all mining and energy companies listed on the Indonesia Stock Exchange (IDX). Using purposive sampling, 40 companies were selected based on consistent ESG disclosures and sustainability reporting in 2024. Notable firms include PT Adaro Energy, PT Vale Indonesia, PT Aneka Tambang, and PT Medco Energi.

Data were analysed using regression-based path analysis in two stages:

1. Simple Linear Regression: Evaluates the effect of green accounting on ESG.
2. Multiple Regression Model: Tests both the direct effect of green accounting and the indirect effect of ESG on ROA.

To confirm mediation, the Sobel test was applied to compute the z-score and determine whether the indirect path (Green Accounting → ESG → ROA) is statistically significant. All analyses were conducted using SPSS to ensure robustness and consistency. A conceptual model visually represents these mediated relationships.

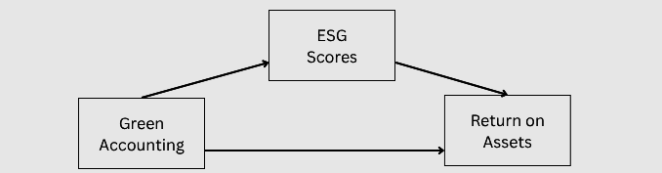

Figure 1
Conceptual Framework of the Mediation Model

Path analysis is conducted in two stages to trace both direct and indirect relationships among variables. In Equation 1, a simple linear regression is used to test the effect of Green Accounting on ESG Scores. This step aims to determine whether environmentally responsible accounting practices are associated with improvements in sustainability performance.

In Equation 2, multiple regression analysis is employed to evaluate the combined effect of Green Accounting and ESG Scores on Return on Assets (ROA). This allows for the assessment of both the direct financial effect of Green Accounting and its indirect effect mediated through ESG. As illustrated in the diagram, the model investigates whether ESG functions as a mediating variable capturing the indirect path from Green Accounting to financial outcomes.

The present study explores the interconnected roles of Green Accounting (GA), corporate reputation (as reflected by ESG Scores), and financial performance (measured by Return on Assets or ROA). Based on legitimacy theory, stakeholder theory and signaling theory, four hypotheses are developed.

- **H1** posits that Green Accounting has a direct positive effect on ROA, under the assumption that sustainability initiatives create long-term shareholder value. However, empirical findings indicate a significantly **negative** direct effect, suggesting that the short-term costs of green investments may outweigh immediate financial benefits.
- **H2** hypothesizes a positive relationship between Green Accounting and ESG Scores, proposing that transparent and responsible environmental reporting enhances corporate reputation. The data strongly support this hypothesis.
- **H3** suggests that ESG Scores positively influence ROA, implying that companies with stronger sustainability reputations are more likely to enjoy enhanced financial outcomes—this relationship is confirmed in the analysis.
- **H4** proposes a mediating role of ESG Scores in the GA–ROA relationship. The Sobel Test confirms a statistically significant indirect effect, validating that improved ESG performance serves as a reputational bridge through which green accounting indirectly boosts financial performance.

Collectively, these hypotheses construct a **competitive mediation model**, where the indirect reputational advantages derived from ESG partially mitigate the direct financial burden of green initiatives.

Results

Classical Assumption Tests

Classical assumption tests are a series of statistical diagnostics conducted prior to regression analysis to ensure the validity and unbiasedness of model estimates. The primary goal is to satisfy the core assumptions of Ordinary Least Squares (OLS) regression, with four tests that includes:

1. Normality: Residuals must follow a normal distribution.
2. Multicollinearity: Independent variables should not be highly correlated.
3. Heteroscedasticity: Residuals should have constant variance across predictor levels.
4. Autocorrelation: Residuals should not be correlated across observations (mainly for time-series data).

According to Basuki (2015), autocorrelation testing is unnecessary for panel data, which are cross-sectional in nature, as autocorrelation primarily concerns time-series data. Thus, the autocorrelation test was not applied. These assumptions are critical for ensuring that the inferred relationships genuinely reflect those in the population.

1. Normality Test

The normality test assesses whether the residuals of the regression model conform to a normal distribution, a critical prerequisite for Ordinary Least Squares (OLS) regression to produce BLUE (Best Linear Unbiased Estimator) coefficients. In this analysis, the Kolmogorov–Smirnov (K-S) test was conducted on a sample size of 40 observations.

Table 1. Normality Test Results – Substructure 1

One-Sample Kolmogorov-Smirnov Test	
	Unstandardized Residual
N	40
Asymp. Sig. (2-tailed)	.200[c,d]

Source: Data Processing Results, 2025

Table 2. Normality Test Results – Substructure 2

One-Sample Kolmogorov-Smirnov Test	
	Unstandardized Residual
N	40
Asymp. Sig. (2-tailed)	.200[c,d]

Source: Data Processing Results, 2025

Both substructures yielded significance values of 0.200, respectively (sig > 0.05), showing that the data are normally distributed.

2. Multicollinearity Test

This test identifies potential linear intercorrelations among independent variables, which can distort regression coefficient interpretation. Conducted on 40 samples using Tolerance and Variance Inflation Factor (VIF) statistics, the thresholds were tolerance > 0.10 and VIF < 10.

Table 3. Multicollinearity Test – Substructure 1

Coefficients[a]			
Model		*Collinearity Statistics*	
		Tolerance	*VIF*
1	*(Constant)*		
	GA	1.000	1.000

Source: Data Processing Results, 2025

Table 4. Multicollinearity Test – Substructure 2

Coefficients[a]			
Model		*Collinearity Statistics*	
		Tolerance	*VIF*
1	*(Constant)*		
	GA	.997	1.003
	ESG	.997	1.003

Source: Data Processing Results, 2025

The test results show that the Tolerance value for the Green Accounting variable in substructure 1 is 1.000. In substructure 2, the Tolerance values for the GA and ESG variables are 0.997, respectively. Both values exceed the threshold of 0.10, indicating no multicollinearity issues. Furthermore, the Variance Inflation Factor (VIF) in substructure 1 is 1.000, and in substructure 2 is 1.003, both of which are well below the critical value of 10. Therefore, it can be concluded that there is no indication of multicollinearity in either substructure 1 or substructure 2.

3. Heteroscedasticity Test

This test detects variance inequality in residuals across predictor values. The Glejser method was used, regressing absolute residuals against each independent variable. Significance values above 0.05 indicate absence of heteroscedasticity.

Table 5. Heteroscedasticity Test using Glejser Method – Substructure 1

Coefficients[a]		
Model		***Sig.***
	(Constant)	.000
	GA	.205

Source: Data Processing Results, 2025

Table 6. Heteroscedasticity Test using Glejser Method – Substructure 2

Coefficients[a]		
Model		***Sig.***
	(Constant)	.312
	GA	.085
	ESG	.188

Source: Data Processing Results, 2025

The test results demonstrate that the significance value in substructure 1 is 0.205, while in substructure 2 the values are 0.085 and 0.188, respectively. Since all significance values exceed the threshold of 0.05, it can be concluded that there is no evidence of heteroskedasticity in the data for either substructure.

Conclusion of Classical Assumption Tests

Based on the tests for normality, multicollinearity, and heteroscedasticity, both substructures satisfy classical regression assumptions. Residuals are normally distributed, there is no multicollinearity (tolerance > 0.10, VIF < 10), and heteroscedasticity is absent ($p > 0.05$). Therefore, the regression model is statistically valid for subsequent analysis.

4. Structural Model Testing (Path Analysis)

Path analysis is employed to examine the direct and indirect effects among variables within a constructed causal model. This approach is an extension of multiple linear regression that enables the identification of mediation roles within a structural relationship. The model under investigation consists of the independent variable Green Accounting (GA), the mediating variable Corporate Reputation (measured through ESG Scores), with the dependent variable, Financial Performance, operationalized through ROA.

The analysis is conducted in two stages:

1. Testing the direct effect of the independent variable on the mediator; and
2. Testing the simultaneous effects of the independent variable and the mediator on the dependent variable.

The results of these two regression analyses serve as the basis for evaluating whether a mediating effect exists within the proposed model.

Table 7. Regression Test Results - Substructure 1

Coefficients[a]						
Model		*Unstandardized Coefficients*		*Standardized Coefficients*	t	*Sig.*
		B	*Std. Error*	*Beta*		
1	(Constant)	30.900	.178		173.162	.000
	GA	3.018	.955	.456	3.160	.003

Source: Data Processing Results, 2025

Within the initial regression framework, an analysis was performed to examine the relationship between the independent variable GA and the dependent variable ESG. The regression findings reveal a positive linear association between GA and ESG, expressed in the regression equation as:

ESG = 30.900 + 3.018GA

Based on the t-test results shown in the Coefficients table, the variable GA has a t-value of 3.160 and a significance value (p-value) of 0.003. Since the p-value is less than the significance level of 0.05, it can be concluded that GA has a statistically significant effect on the dependent variable. The unstandardized coefficient (B) for GA is 3.018, indicating that a one-unit increase in GA is associated with an increase of 3.018 units in the dependent variable, assuming all other variables remain constant. Therefore, GA is a significant predictor in the model.

Table 8. ANOVA Table of Multiple Linear Regression - Substructure 1

ANOVA[a]						
Model		*Sum of Squares*	*df*	*Mean Square*	*F*	*Sig.*
1	*Regression*	10.972	1	10.972	9.987	.003[b]
	Residual	41.749	38	1.099		
	Total	52.721	39			

Source: Data Processing Results, 2025

Furthermore, the t-test in Substructure 1 shows that the GA variable has a significant effect on ESG, with a p-value of 0.003 (< 0.05). The F-test yields an F-value of 9.987 with a significance level of p = 0.003, showing that the model is statistically significant overall and can be used to predict ESG based on Green Accounting.

Table 9. R-Square Table of Multiple Linear Regression - Substructure 1

Model Summary[b]				
Model	*R*	*R Square*	*Adjusted R Square*	*Std. Error of the Estimate*
1	.456[a]	.208	.187	1.04817

Source: Data Processing Results, 2025

The R Square value for Substructure 1 is 0.208. This signifies that 20.8% of the variation in ESG may be elucidated by the Green Accounting variable, while the remaining 79.2% is attributed to other factors outside the model.

Table 10. Regression Test Results - Substructure 2

Coefficients[a]						
Model		*Unstandardized Coefficients*		*Standardized Coefficients*	t	*Sig.*
		B	*Std. Error*	*Beta*		
1	(Constant)	.054	.003		17.096	.000
	GA	-.083	.006	-.839	-14.570	.000

	ESG	.001	.000	.461	8.005	.000

Source: Data Processing Results, 2025

Based on the t-test results presented in the Coefficients table, both GA and ESG variables significantly affect the dependent variable. The GA variable has a t-value of -14.570 with a significance level of 0.000, which is below the threshold of 0.05. This indicates that GA has a statistically significant and negative effect on the dependent variable. The unstandardized coefficient (B) for GA is -0.083, meaning that a one-unit increase in GA is associated with a 0.083-unit decrease in the dependent variable, assuming all other variables remain constant. The regression equation for Substructure 2 is:

$$\mathbf{ROA = 0.054 - 0.083GA + 0.001ESG}$$

Similarly, the ESG variable has a t-value of 8.005 and a significance value of 0.000, indicating a statistically significant positive effect. The unstandardized coefficient (B) for ESG is 0.001, suggesting that a one-unit increase in ESG is associated with a 0.001-unit increase in the dependent variable. In conclusion, both GA and ESG are significant predictors in the model, with GA having a negative relationship and ESG a positive one.

Table 11. ANOVA Table of Multiple Linear Regression - Substructure 2

ANOVA[a]						
Model		*Sum of Squares*	*df*	*Mean Square*	*F*	*Sig.*
1	*Regression*	.010	2	.005	132.561	.000[b]
	Residual	.001	37	.000		
	Total	.012	39			

Source: Data Processing Results, 2025

The t-test results demonstrate that both variables in the second model are statistically significant. GA has a significant negative effect on ROA (p = 0.000), while ESG has a significant positive effect on ROA (p = 0.000). The F-test yields an F-value of 132.561 with a p-value of 0.000, showing that the model is highly significant overall.

Table 12. R-Square Table of Multiple Linear Regression - Substructure 2

Model Summary[b]				
Model	*R*	*R Square*	*Adjusted R Square*	*Std. Error of the Estimate*
1	.937[a]	.878	.871	.00623

Source: Data Processing Results, 2025

The R Square value for the second model is 0.878, showing that 87.8% of the variation in ROA may be elucidated by the combined effects of GA and ESG. This suggests that the model has excellent explanatory power with respect to ROA.

In the path analysis, it was found that the direct effect of GA on ROA is a significantly negative value of -0.083. However, GA also exerts an indirect effect through ESG. The coefficient for the effect of GA on ESG is 3.018, while the coefficient for the effect of ESG on ROA is 0.001. Therefore, the indirect effect of GA on ROA through ESG is 0.003018. The path analysis calculation is as follows:

The **direct effect** refers to the impact of the independent variable (GA) on the dependent variable (ROA), not passing through the mediator. Here is the formula:

$$\mathbf{Y = c'X + e}$$

Where:

Y = ROA
X = Green Accounting
c′ = Direct effect of X on Y
e = Error term

with the following substitution:

Direct effect = c′ = **−0.083**
Indirect effect = 3.018 × 0.001 = **0.003018**

The Total effect, this is the combined effect of GA on ROA through both direct and indirect paths, we find with this formula with the substitution as it follows:

Total effect = Direct effect + Indirect effect
Total effect = (−0.083) + 0.003018 = **−0.079982**

The total effect of GA on ROA is −0.079982, showing that part of the negative impact of GA on ROA can be offset by ESG.

To determine the statistical significance of ESG's mediating effect, a **Sobel Test** is conducted with the following parameters obtained from the regression output:

Path coefficient α = 3.018 (effect of GA on ESG)
Standard error Sα = 0.955
Path coefficient b = 0.001 (effect of ESG on ROA)
Standard error Sb = 0.000

The Sobel Test formula is as follows:

$$Z = \frac{a.b}{\sqrt{(b^2.Sa^2) + (a^2.Sb^2)}}$$

With the following substitution:

$$Z = \frac{3{,}018\ x\ 0{,}001}{\sqrt{((0{,}001^2\ \text{x}\ 0{,}955^2) + (3{,}018^2\ \text{x}\ 0{,}000^2)}}$$

$$\boldsymbol{Z = 3{,}16}$$

Given the path coefficient of GA to ESG is 3.018 (SE = 0.955) and from ESG to ROA is 0.001 (SE = 0.000), the Sobel test yields a Z-score of 3.16, with statistical significance at the 0.05 threshold. With a Z-value of 3.16, it can be concluded that ESG significantly mediates the effect of Green Accounting on ROA. This signifies that while the implementation of Green Accounting directly reduces ROA, part of this negative effect can be transformed into a positive impact through ESG. In other words, companies that report sound environmental practices via ESG metrics can enhance market perceptions and achieve better financial performance, even though the implementation of green accounting entails short-term cost burdens.

Conclusion

This study investigates the relationship between Green Accounting (GA), corporate reputation (measured by ESG Scores), and financial performance (ROA). Path analysis results show a significantly positive effect of Green Accounting on ESG, supporting **Hypothesis H2**, which posits that environmentally responsible accounting enhances corporate reputation.

Further, ESG Scores positively and significantly affect ROA, supporting **Hypothesis H3**. Contrary to **Hypothesis H1**, the direct relationship between Green Accounting and ROA was found to be significantly negative. This suggests that green initiatives may incur short-term costs that reduce immediate financial gains. However, the Sobel Test reveals a statistically significant indirect effect of Green Accounting on ROA through ESG, supporting **Hypothesis H4**. This mediation effect suggests that although the financial benefits of green accounting may not be immediate, improved sustainability reputation can indirectly contribute to financial performance. These findings reflect a competitive mediation model where positive indirect effects through ESG partially offset the direct financial costs of green investments.

Suggestions and Recommendations

Based on these findings, companies are encouraged to adopt and strengthen Green Accounting practices—not merely for short-term profit, but as a long-term strategy to build ESG-based reputation. Firms should transparently communicate environmental performance to stakeholders by leveraging ESG reporting as a tool to foster trust, credibility, and enduring investor relations.

For policymakers and regulators, it is recommended to establish incentives and regulatory frameworks that support sustainability accounting, given its potential to enhance long-term financial health via reputational capital.

Subsequent studies are encouraged to investigate the enduring financial impacts of green accounting and explore additional mediating or moderating variables such as innovation, regulatory compliance, or market competitiveness.

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