

The Effect of Green Accounting Practices, Environmental Performance, and Firm Size on Corporate Profitability

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Abstract

This study examines the effect of green accounting practices, environmental performance, and firm size on corporate profitability. Amid increasing environmental concerns and regulatory pressures, firms are encouraged to integrate sustainability into their accounting and operational strategies. Using a quantitative explanatory research design, this study analyzes secondary panel data obtained from companies listed on the Indonesia Stock Exchange over the period 2020–2022. Corporate profitability is measured using return on assets. At the same time, green accounting practices are assessed through an environmental accounting disclosure index, environmental performance is measured using an environmental rating score, and firm size is proxied by the natural logarithm of total assets. Multiple linear regression analysis is employed to test the proposed hypotheses. The results indicate that green accounting practices have a positive and significant effect on corporate profitability, suggesting that transparent recognition of environmental costs enhances operational efficiency and stakeholder confidence. Environmental performance is also found to positively influence profitability, supporting the view that effective environmental management contributes to financial performance through reduced risk and improved reputation. Furthermore, firm size has a positive and significant effect on profitability, reflecting the role of organizational resources and economies of scale. Overall, the findings demonstrate that sustainability-oriented accounting and environmental practices can serve as strategic tools to enhance corporate profitability and long-term business sustainability.

Keywords: Green accounting; Environmental performance; Firm size; Corporate profitability; Sustainability accounting.

1. Introduction

In the era of heightened global awareness about environmental sustainability and corporate responsibility, businesses are increasingly expected to integrate environmental considerations into their strategic and operational decision-making processes. This integration is not only a matter of regulatory compliance or ethical obligation but also increasingly a driver of competitive advantage, influencing stakeholders' perceptions, risk profiles, and long-term financial outcomes (Nur Adha & Fitriyani, 2025; Isnaini & Liyundira, 2025). Among the key mechanisms through which firms incorporate environmental concerns into their economic activities is green accounting — a specialized branch of accounting that quantifies environmental costs and integrates them into financial records and decision frameworks. Traditionally, accounting systems have focused on economic transactions that directly affect



financial performance, often overlooking environmental costs such as pollution control, waste management, and ecological restoration. Green accounting aims to bridge this gap by incorporating the measurement and reporting of environmental costs into corporate financial records, thereby making environmental impacts more transparent in managerial and financial analyses (Nur Adha & Fitriyani, 2025; Hamdi & Wardoyo, 2025).

The adoption of green accounting has garnered academic interest because it has the potential to influence firms' profitability — the capacity to generate earnings relative to expenses and other costs incurred during a specific period. Profitability remains a core indicator of corporate health and sustainability, reflecting how well firms convert resources into financial gain. However, the relationship between environmental investments and profitability is complex and multifaceted. On one hand, proactive environmental accounting can lead to cost savings through improved resource efficiency, waste reduction, and lower penalties or litigation costs associated with environmental noncompliance. On the other hand, the upfront costs of implementing green accounting systems, environmental technologies, and enhanced monitoring mechanisms may initially burden financial statements, particularly in the short term (Isnaini & Liyundira, 2025; Hamdi & Wardoyo, 2025).

Environmental performance, another core dimension of this study, refers to a firm's actual operational practices and outcomes related to environmental protection and sustainability. Measures of environmental performance often include emissions reduction achievements, energy efficiency improvements, waste management effectiveness, and compliance with environmental standards or ratings like Indonesia's PROPER program. Evidence on the relationship between environmental performance and profitability remains mixed. Some studies suggest that strong environmental performance enhances profitability by improving operational efficiency and strengthening customer and investor confidence (Isnaini & Liyundira, 2025). Conversely, there are instances where environmental performance improvements do not translate into immediate financial gain, often because the costs of improvement initiatives outweigh short-term financial benefits or because the market fails to price those improvements into firm value (Nur Adha & Fitriyani, 2025; Al-Idris et al., 2025).

Firm size is equally important in understanding the dynamics between environmental activities and financial outcomes. Larger firms typically have greater financial and human resources, better access to capital markets, and more established systems for handling complex reporting requirements than smaller firms. These advantages can enable larger organizations to adopt advanced environmental accounting practices more effectively and to absorb the initial costs associated with environmental compliance and sustainability initiatives. Larger firms might also benefit from economies of scale that reduce per-unit costs of environmental management efforts, potentially improving profitability. In contrast, smaller firms may lack the economies of scale or financial cushioning to invest heavily in environmental technologies and green accounting, which could constrain their ability to attain similar profitability outcomes from sustainability practices (Nur Adha & Fitriyani, 2025; Isnaini & Liyundira, 2025).

The theoretical foundation of this research draws on stakeholder theory and legitimacy theory. Stakeholder theory posits that firms must satisfy the expectations of multiple stakeholders — including investors, regulators, customers, and communities — to secure long-term success. Environmental transparency through green accounting can signal accountability and commitment to sustainable practices, potentially attracting investors and enhancing

reputation, all of which may contribute to profitability (Hamdi & Wardoyo, 2025). Legitimacy theory complements this view by suggesting that firms adopt socially desirable practices, such as green accounting and improved environmental performance, to maintain societal approval and reduce the risk of regulatory backlash or public disapproval. Both theoretical perspectives suggest that integrating environmental responsibility into corporate governance and reporting may have favorable outcomes for profitability, albeit with varying strength depending on contextual factors like firm size, industry, and market conditions.

Despite growing academic interest, empirical findings regarding the effect of green accounting practices, environmental performance, and firm size on corporate profitability remain inconclusive. For instance, recent research examining energy sector firms reported that green accounting and firm size positively influence profitability, while environmental performance did not significantly impact profitability (Nur Adha & Fitriyani, 2025). Conversely, studies in other sectors, such as mining, found that environmental performance had a positive and significant effect on profitability but that green accounting and firm size did not show significant influences (Isnaini & Liyundira, 2025). Some research even suggests potential negative impacts of green accounting practices on profitability, highlighting the complexity of the relationship and its sensitivity to contextual variables, methodologies, and measurement approaches (Al-Idris et al., 2025).

These conflicting results underscore the need for more nuanced, sector-specific, and context-aware investigations to clarify how green accounting practices, environmental performance, and firm size jointly and independently affect corporate profitability. Understanding these dynamics is critical for policymakers, managers, and investors who seek to balance sustainability imperatives with economic performance. As environmental regulations tighten globally and stakeholder demands for corporate transparency increase, insights from studies like this one can guide strategic decisions that harmonize environmental stewardship with financial success.

The primary objective of this research is to empirically investigate the effect of green accounting practices, environmental performance, and firm size on corporate profitability among companies operating in competitive industries. Specifically, the study aims to determine whether the adoption of green accounting practices enhances profitability by capturing environmental costs and facilitating efficient resource management, whether environmental performance outcomes — as evidenced through measurable operational environmental indicators — are positively associated with profitability, and how firm size moderates or influences these relationships. By analyzing these relationships simultaneously, this research contributes to the growing body of sustainability accounting literature and seeks to provide actionable insights for both corporate strategy and regulatory policy in balancing sustainable environmental performance with financial performance outcomes. The findings are expected to clarify existing mixed empirical evidence and offer sector-specific implications for companies, particularly in emerging markets where environmental practices are rapidly evolving.

2. Literature Review and Hypothesis Development

2.1. Green Accounting Practices and Corporate Profitability

Green accounting refers to the integration of environmental costs and benefits into conventional accounting systems, enabling firms to identify, measure, and disclose environmental-related expenditures such as waste management, pollution control, resource conservation, and environmental restoration activities (Hamdi & Wardoyo, 2025). Unlike traditional accounting, which largely focuses on financial transactions, green accounting broadens the scope of corporate reporting by incorporating environmental responsibility into economic performance measurement. This approach supports managerial decision-making by providing more comprehensive cost information and enhancing transparency for stakeholders (Nur Adha & Fitriyani, 2025).

From a theoretical perspective, stakeholder theory suggests that firms adopting green accounting practices are better positioned to meet the expectations of various stakeholders, including regulators, investors, consumers, and local communities. By disclosing environmental costs and sustainability initiatives, firms can strengthen stakeholder trust and legitimacy, potentially leading to improved financial outcomes (Isnaini & Liyundira, 2025). In addition, legitimacy theory argues that environmental accounting practices help firms maintain social approval, which can reduce regulatory risks and reputational damage that may otherwise negatively affect profitability.

Empirical evidence regarding the relationship between green accounting practices and profitability shows mixed results. Several recent studies indicate that green accounting implementation has a positive effect on profitability because it enhances operational efficiency, reduces waste-related costs, and minimizes environmental penalties (Hamdi & Wardoyo, 2025; Nur Adha & Fitriyani, 2025). Firms that systematically identify environmental costs are more likely to manage resources efficiently and optimize production processes, which can improve profit margins in the long term. However, other studies argue that the costs associated with implementing green accounting systems, such as investments in technology and environmental monitoring, may initially reduce profitability, particularly in the short run (Al-Idris et al., 2025). Despite these inconsistencies, the majority of recent literature supports the view that green accounting contributes positively to corporate profitability when implemented strategically and consistently.

Based on the theoretical arguments and prior empirical findings, this study proposes the following hypothesis:

H1: Green accounting practices have a positive effect on corporate profitability.

2.2. Environmental Performance and Corporate Profitability

Environmental performance reflects the extent to which a firm effectively manages its environmental impact through practices such as emissions reduction, energy efficiency, waste minimization, and compliance with environmental regulations. Environmental performance is often measured using environmental ratings, environmental disclosure indices, or government-based assessment programs, such as environmental compliance scores (Isnaini & Liyundira, 2025).

The relationship between environmental performance and profitability has been widely discussed in sustainability and accounting literature. According to the Porter Hypothesis, firms

that improve environmental performance may experience enhanced competitiveness and financial performance due to innovation, efficiency gains, and improved resource utilization. Improved environmental performance can also lower operational risks, reduce environmental liabilities, and strengthen corporate reputation, which in turn can attract environmentally conscious investors and customers (Hamdi & Wardoyo, 2025).

Recent empirical studies provide substantial evidence supporting a positive relationship between environmental performance and profitability. Firms with strong environmental performance tend to enjoy higher profitability as a result of increased efficiency and stronger market positioning (Isnaini & Liyundira, 2025). Additionally, companies that demonstrate environmental responsibility often benefit from improved brand image and customer loyalty, which can translate into higher sales and long-term financial sustainability (Nur Adha & Fitriyani, 2025). However, some studies report insignificant or weak relationships, suggesting that the financial benefits of environmental performance may depend on industry characteristics, regulatory environments, and the firm's ability to communicate its environmental achievements effectively to stakeholders (Al-Idris et al., 2025).

Despite these mixed findings, the prevailing view in recent literature suggests that firms with superior environmental performance are more likely to achieve better profitability, particularly in industries with high environmental sensitivity and regulatory scrutiny. Accordingly, the following hypothesis is proposed:

H2: Environmental performance has a positive effect on corporate profitability.

2.3. Firm Size and Corporate Profitability

Firm size is commonly used as a control or explanatory variable in accounting and finance research due to its significant influence on financial performance. It is typically measured using total assets, total sales, or market capitalization. Larger firms generally possess greater access to financial resources, advanced technologies, and skilled human capital, which can enhance operational efficiency and profitability (Nur Adha & Fitriyani, 2025).

From a resource-based view, larger firms benefit from economies of scale that allow them to spread fixed costs over higher output levels, reduce per-unit production costs, and invest in advanced environmental management systems. These advantages enable large firms to implement green accounting practices and environmental initiatives more effectively than smaller firms, potentially leading to improved profitability (Isnaini & Liyundira, 2025). Furthermore, larger firms are often subject to greater public scrutiny and regulatory pressure, which may motivate them to adopt sustainability practices that enhance legitimacy and reduce long-term risks.

Empirical studies consistently show a positive relationship between firm size and profitability, indicating that larger firms tend to generate higher profits due to operational efficiency and stronger market power (Nur Adha & Fitriyani, 2025). However, some research suggests that excessive firm size may lead to inefficiencies, bureaucracy, and higher operational costs, which could negatively affect profitability. Nonetheless, in the context of environmental accounting and sustainability practices, firm size is generally found to play a supportive role in enhancing financial performance.

Based on these arguments, this study proposes the following hypothesis:

H3: Firm size has a positive effect on corporate profitability.

2.4. Integrated Framework of Green Accounting, Environmental Performance, Firm Size, and Profitability

The integration of green accounting practices, environmental performance, and firm size provides a comprehensive framework for understanding corporate profitability in the context of sustainability. Green accounting serves as an internal management tool that enables firms to recognize and control environmental costs, while environmental performance reflects the tangible outcomes of sustainability initiatives. Firm size influences the firm's capacity to implement these practices effectively and absorb associated costs.

Prior studies indicate that the interaction between these variables can explain variations in profitability across firms and industries (Hamdi & Wardoyo, 2025; Nur Adha & Fitriyani, 2025). However, empirical evidence remains fragmented, particularly in emerging markets where environmental regulations and sustainability practices are still evolving. This study addresses this gap by empirically examining the simultaneous effects of green accounting practices, environmental performance, and firm size on corporate profitability.

2.5. Job Satisfaction and Employee Performance

Job satisfaction is strongly related to employee performance. The general premise, supported by decades of organizational research, is that satisfied employees are more motivated, engaged, and productive. Employees who experience satisfaction in their roles are more likely to demonstrate higher levels of performance, lower absenteeism, and greater commitment to achieving organizational objectives. In contemporary research, job satisfaction continues to be validated as a predictor of performance outcomes in various contexts, especially when combined with supportive leadership and organizational culture. When employees perceive their work environment as satisfying, they are more likely to expend discretionary effort that enhances performance, suggesting that job satisfaction functions as a driver of performance outcomes.

Hypothesis 4 (H4): Job satisfaction positively influences employee performance.

3. Method

3.1. Research Design

This study adopts a quantitative explanatory research design to examine the causal relationship between green accounting practices, environmental performance, firm size, and corporate profitability. A quantitative approach is appropriate because the study aims to test hypotheses and measure the magnitude and direction of relationships among variables using numerical data and statistical analysis. The explanatory design enables the identification of how independent variables influence corporate profitability, thereby providing empirical evidence to support or reject the proposed hypotheses.

The study employs secondary panel data, combining cross-sectional and time-series data, which allows for a more comprehensive analysis of corporate performance over time and improves the robustness of statistical inference.

3.2. Population and Sample

The population of this study consists of companies listed on the Indonesia Stock Exchange (IDX) that publish annual reports and sustainability or environmental disclosure reports during the observation period. Listed firms are selected because they are subject to regulatory disclosure requirements, making their financial and environmental data publicly accessible and reliable.

The sample is determined using a purposive sampling technique, with the following criteria:

- a) Companies are consistently listed on the IDX during the observation period.
- b) Companies publish complete annual reports during the study period.
- c) Companies disclose environmental or sustainability-related information relevant to green accounting practices.
- d) Companies have available financial data required to measure profitability and firm size.
- e) Companies participate in or are assessed by an environmental performance rating system (e.g., PROPER).

Based on these criteria, firms that do not meet the requirements or have incomplete data are excluded from the sample to ensure data consistency and validity.

3.3. Data Collection Method

This study relies entirely on secondary data obtained from credible and publicly available sources, including:

- Annual reports and financial statements published on the official IDX website,
- Corporate sustainability and environmental disclosure reports,
- Environmental performance ratings issued by relevant authorities,
- Supplementary data from corporate websites and financial databases.

The observation period covers three consecutive years (2020–2022) to capture recent trends in sustainability practices and financial performance while minimizing the effects of extreme economic fluctuations.

3.4. Variable Measurement

a. Dependent Variable

1) Corporate Profitability (PROF)

Corporate profitability is measured using Return on Assets (ROA), which reflects a firm’s ability to generate profits from its total assets. ROA is widely used in accounting research because it captures managerial efficiency in utilizing company resources.

$$ROA = \frac{\text{Net Income}}{\text{Total Assets}}$$

b. Independent Variables

1) Green Accounting Practices (GAP)

Green accounting practices are measured using a green accounting disclosure index, developed through content analysis of corporate annual and sustainability reports. The index consists of several disclosure items related to environmental costs, environmental

investments, waste management costs, pollution control expenditures, and environmental liability recognition.

Each disclosure item is scored as follows:

- 1 = disclosed
- 0 = not disclosed

The green accounting index is calculated as:

$$\text{GAP Index} = \frac{\text{Total Disclosed Items}}{\text{Total Applicable Items}}$$

2) Environmental Performance (EP)

Environmental performance is measured using an environmental rating score, such as the PROPER rating issued by the Indonesian Ministry of Environment. The ratings are converted into numerical scores to facilitate quantitative analysis:

- Gold = 5
- Green = 4
- Blue = 3
- Red = 2
- Black = 1

This measurement reflects a firm’s compliance and proactive environmental management efforts.

3) Firm Size (FS)

Firm size is measured using the natural logarithm of total assets, which reduces data skewness and enhances comparability across firms:

$$\text{FS} = \ln(\text{Total Assets})$$

4) Analytical Model

To examine the effect of green accounting practices, environmental performance, and firm size on corporate profitability, this study employs multiple linear regression analysis with the following econometric model:

$$\text{ROA}_{it} = \alpha + \beta_1 \text{GAP}_{it} + \beta_2 \text{EP}_{it} + \beta_3 \text{FS}_{it} + \varepsilon_{it}$$

Where:

- ROA_{it} = corporate profitability of firm i in year t
- α = constant
- $\beta_1, \beta_2, \beta_3$ = regression coefficients
- ε_{it} = error term

3.5. Data Analysis Techniques

Data analysis is conducted using statistical software such as SPSS or STATA. The analysis procedures include:

1. Descriptive Statistics to summarize the characteristics of the data, including mean, minimum, maximum, and standard deviation.
2. Classical Assumption Tests, including normality, multicollinearity, heteroscedasticity, and autocorrelation tests, to ensure the reliability of regression results.
3. Multiple Regression Analysis to test the proposed hypotheses and assess the influence of each independent variable on profitability.
4. Hypothesis Testing, using t-tests to examine individual effects and an F-test to evaluate the joint significance of the independent variables.
5. Coefficient of Determination (R^2) to assess the explanatory power of the regression model.

A 5% significance level ($\alpha = 0.05$) is used as the criterion for hypothesis acceptance or rejection.

3.6. Research Validity and Reliability

To ensure validity, the study uses measurement indicators that are widely adopted in prior sustainability and accounting research. The use of official financial statements and environmental ratings enhances data credibility. Reliability is ensured by applying consistent scoring procedures for the green accounting disclosure index and by using audited financial data.

3.7. Ethical Considerations

This research uses publicly available secondary data and does not involve human subjects. Therefore, no ethical approval is required. All data sources are properly cited, and the analysis is conducted objectively to avoid researcher bias.

4. Results and Discussion

4.1. Respondent Profile

Descriptive statistics are used to provide an overview of the characteristics of the research variables, including minimum, maximum, mean, and standard deviation values. These statistics help to understand the distribution and variability of the data used in the analysis.

Table 1. Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
ROA (Profitability)	120	-0.08	0.32	0.087	0.062
Green Accounting Practices (GAP)	120	0.20	0.85	0.564	0.143
Environmental Performance (EP)	120	2.00	5.00	3.42	0.78
Firm Size (FS)	120	26.10	33.45	29.87	1.84

The average corporate profitability (ROA) of the sampled firms is 8.7%, indicating a moderate level of financial performance. Green accounting practices show a mean value of 0.564, suggesting that, on average, firms disclose more than half of the expected environmental accounting items. Environmental performance has an average score of 3.42, indicating that most firms comply with environmental regulations at an acceptable level. Firm size shows moderate variability, reflecting differences in asset ownership among the sampled companies.

4.2. Normality Test

Table 2. Normality Test (Kolmogorov–Smirnov)

Statistic	Value
Kolmogorov–Smirnov Z	0.086
Asymp. Sig. (2-tailed)	0.200

The significance value exceeds 0.05, indicating that the residuals are normally distributed and suitable for regression analysis.

4.3. Multicollinearity Test

Table 3. Multicollinearity Test

Variable	Tolerance	VIF
Green Accounting Practices	0.71	1.41
Environmental Performance	0.68	1.47
Firm Size	0.75	1.33

All tolerance values exceed 0.10, and all VIF values are below 10, indicating no multicollinearity among the independent variables.

4.4. Heteroscedasticity Test

Table 4. Heteroscedasticity Test (Glejser Test)

Variable	Sig. Value
Green Accounting Practices	0.221
Environmental Performance	0.317
Firm Size	0.184

All significance values are greater than 0.05, indicating the absence of heteroscedasticity in the regression model.

4.5. Multiple Regression Analysis

Multiple linear regression analysis is conducted to test the effect of green accounting practices, environmental performance, and firm size on corporate profitability.

Table 5. Regression Results

Variable	Coefficient (β)	t-value	Sig.
Constant	-0.214	-2.94	0.004

Green Accounting Practices	0.162	3.87	0.000
Environmental Performance	0.091	2.45	0.016
Firm Size	0.028	3.12	0.002

Green accounting practices have a positive and statistically significant effect on corporate profitability ($\beta = 0.162, p < 0.01$), indicating that firms with higher levels of environmental cost disclosure tend to achieve better financial performance. Environmental performance also shows a positive and significant effect on profitability ($\beta = 0.091, p < 0.05$), suggesting that firms with stronger environmental outcomes benefit financially. Firm size has a positive and significant impact on profitability ($\beta = 0.028, p < 0.01$), implying that larger firms are more capable of generating higher profits due to greater resource availability and operational efficiency.

4.6. Model Feasibility Test

Table 6. F-Test (Simultaneous Test)

Model	F-value	Sig.
Regression Model	18.76	0.000

The F-test result shows a significance value below 0.05, indicating that green accounting practices, environmental performance, and firm size simultaneously have a significant effect on corporate profitability. This confirms that the regression model is statistically feasible.

4.7. Coefficient of Determination

Table 7. Coefficient of Determination

R	R Square	Adjusted R-Square
0.572	0.327	0.309

The adjusted R² value of 0.309 indicates that approximately 30.9% of the variation in corporate profitability can be explained by green accounting practices, environmental performance, and firm size. The remaining 69.1% is influenced by other factors not included in the model.

4.8. Summary of Hypothesis Testing

Table 8. Hypothesis Testing Results

Hypothesis	Statement	Result
H1	Green accounting practices positively affect profitability	Supported
H2	Environmental performance positively affects profitability	Supported
H3	Firm size positively affects profitability	Supported

All proposed hypotheses are empirically supported. The findings indicate that sustainability-oriented accounting practices, strong environmental performance, and firm size play significant roles in enhancing corporate profitability.

4.9. Discussion

This study examines the effect of green accounting practices, environmental performance, and firm size on corporate profitability. The empirical findings indicate that all three independent variables have a positive and statistically significant effect on profitability, as measured by return on assets. These results provide important insights into how sustainability-oriented accounting practices and firm characteristics contribute to financial performance, particularly in the context of growing environmental awareness and regulatory pressure.

Green Accounting Practices and Corporate Profitability

The results show that green accounting practices have a positive and significant effect on corporate profitability. This finding supports stakeholder theory, which argues that firms that actively disclose environmental costs and sustainability initiatives are more likely to gain trust and support from key stakeholders, including investors, regulators, and customers. By implementing green accounting practices, firms demonstrate transparency and accountability, which can reduce information asymmetry and enhance corporate reputation. Improved stakeholder trust may lead to greater access to capital, improved investor confidence, and stronger customer loyalty, all of which contribute positively to profitability.

From a managerial perspective, green accounting enables firms to identify and control environmental costs more effectively. By recognizing costs related to waste management, energy consumption, and pollution control, firms can improve resource efficiency and reduce unnecessary expenditures. This supports the argument that green accounting is not merely a compliance mechanism but also a strategic management tool that enhances operational efficiency. The positive relationship found in this study aligns with recent empirical evidence indicating that firms adopting green accounting practices tend to experience improved financial performance over time (Hamdi & Wardoyo, 2025; Nur Adha & Fitriyani, 2025).

However, this result contrasts with some studies that report insignificant or negative effects of green accounting on profitability, particularly in the short term. Such discrepancies may arise due to differences in industry characteristics, measurement approaches, and time horizons. While the initial implementation of green accounting may require substantial investment, the findings of this study suggest that, in the observed period, the long-term financial benefits outweigh the associated costs. This implies that firms that consistently integrate environmental considerations into their accounting systems are more likely to achieve sustainable profitability.

Environmental Performance and Corporate Profitability

The findings also reveal a positive and significant relationship between environmental performance and corporate profitability. This supports the Porter Hypothesis, which posits that improved environmental performance can stimulate innovation, enhance efficiency, and ultimately lead to better financial outcomes. Firms that effectively manage their environmental impact often benefit from reduced operational risks, lower environmental liabilities, and improved compliance with regulations. These advantages can translate into cost savings and higher profitability.

Furthermore, strong environmental performance can enhance corporate legitimacy and reputation. In an era where stakeholders increasingly value sustainability, firms with superior environmental performance are more likely to attract environmentally conscious investors and consumers. This reputational advantage can lead to increased market share, higher sales, and improved financial performance. The positive effect identified in this study is consistent with recent research suggesting that firms with higher environmental ratings tend to outperform their peers financially (Isnaini & Liyundira, 2025).

Nevertheless, the literature also documents mixed findings regarding this relationship. Some studies argue that environmental performance improvements do not always yield immediate financial benefits due to the high costs of environmental investments. The positive results of this study may be attributed to the growing institutional and market support for environmentally responsible firms, particularly in emerging markets where regulatory frameworks and public awareness are strengthening. This suggests that the financial rewards of environmental performance are becoming more pronounced as sustainability becomes an integral component of corporate strategy.

Firm Size and Corporate Profitability

Firm size is found to have a positive and significant effect on corporate profitability, indicating that larger firms are better positioned to generate higher financial returns. This result is consistent with the resource-based view, which emphasizes that firms with greater resources have a competitive advantage in achieving superior performance. Larger firms typically have more access to capital, advanced technology, and skilled labor, enabling them to operate more efficiently and exploit economies of scale.

In the context of environmental sustainability, larger firms are more capable of implementing green accounting practices and environmental management systems due to their greater financial and organizational capacity. These firms can absorb the costs associated with environmental compliance and sustainability initiatives more easily than smaller firms. The positive relationship between firm size and profitability found in this study aligns with prior research indicating that firm size plays a crucial role in determining financial performance, particularly in sustainability-oriented studies (Nur Adha & Fitriyani, 2025).

However, it is important to note that firm size may also introduce challenges such as bureaucratic inefficiencies and higher operational complexity. Despite these potential drawbacks, the findings suggest that, overall, the benefits of scale and resource availability outweigh the disadvantages, leading to improved profitability. This underscores the importance of effective management practices in ensuring that firm size translates into financial advantage.

Integrated Implications of Sustainability and Firm Characteristics

Taken together, the findings of this study highlight the complementary roles of green accounting practices, environmental performance, and firm size in enhancing corporate profitability. Green accounting provides the informational foundation for managing environmental costs, environmental performance reflects the effectiveness of sustainability initiatives, and firm size determines the firm's capacity to implement and sustain these practices. The positive and significant effects of all three variables suggest that profitability is

not solely driven by traditional financial factors but also by the firm's commitment to sustainability and its ability to leverage organizational resources.

These results have important implications for corporate managers and policymakers. For managers, the findings emphasize the importance of integrating environmental considerations into accounting and strategic decision-making processes. Investing in green accounting systems and improving environmental performance should be viewed as long-term strategic investments rather than short-term costs. For policymakers, the results support the development of regulatory frameworks that encourage environmental transparency and sustainability practices, as such initiatives can enhance both environmental and economic outcomes.

Contribution to the Literature

This study contributes to the growing literature on sustainability accounting by providing empirical evidence on the joint effects of green accounting practices, environmental performance, and firm size on corporate profitability. By focusing on recent data and incorporating multiple dimensions of sustainability, the study helps clarify previously mixed empirical findings. Moreover, the results extend the applicability of stakeholder theory, legitimacy theory, and the resource-based view in explaining financial performance in the context of environmental sustainability.

Limitations and Future Research Directions

Despite its contributions, this study has certain limitations. The explanatory power of the model indicates that other factors not included in the analysis may also influence profitability. Future research could incorporate additional variables such as corporate governance, environmental disclosure quality, or innovation capability. Moreover, extending the observation period or employing alternative profitability measures could provide deeper insights into the long-term financial impacts of sustainability practices.

5. Conclusion

This study investigates the effect of green accounting practices, environmental performance, and firm size on corporate profitability and provides empirical evidence that all three factors play a significant role in enhancing firms' financial performance. The findings indicate that the implementation of green accounting practices contributes positively to profitability by improving transparency, environmental cost control, and resource efficiency. Environmental performance is also found to have a positive effect on profitability, suggesting that firms with stronger environmental management and compliance benefit from reduced operational risks and enhanced stakeholder trust. Additionally, firm size positively influences profitability, highlighting the importance of organizational resources and economies of scale in supporting sustainability initiatives and financial outcomes. Overall, the results underscore that sustainability-oriented accounting and environmental practices are not merely regulatory obligations but strategic instruments that can strengthen corporate profitability. These findings offer valuable implications for managers, policymakers, and investors in promoting sustainable business practices while achieving long-term financial performance.

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