Financing Decisions and Green Accounting: The Moderating Role of Profitability

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ABSTRACT

Environmental management has emerged as a pressing global concern, prompting governments worldwide to mandate the adoption of environmentally sustainable practices, commonly referred to as green accounting. This study examines the effects of debt financing and equity financing decisions on green accounting practices while also investigating the moderating role of profitability in these relationships. The research utilizes secondary data collected from manufacturing firms in the basic industry and chemical sectors listed on the Indonesia Stock Exchange (IDX) during the period 2021–2023. A panel data regression analysis with moderation effects was employed, with preliminary testing conducted to determine the most appropriate econometric model: Fixed Effect Model (FEM), Common Effect Model (CEM), or Random Effect Model (REM). The findings reveal that debt financing negatively impacts green accounting practices, while equity financing has a significant positive effect. However, profitability was not found to moderate the relationship between financing decisions and green accounting. These results underscore the distinct influences of financing strategies on corporate environmental practices and suggest that profitability alone may not enhance the integration of green accounting within financing decisions.

Keywords: Environmental Cost; Green Accounting; Debt Financing; Equity Financing; Profitability

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Pengaruh Keputusan Pembiayaan Utang dan Pembiayaan Ekuitas Terhadap Green Accounting: Profitabilitas Sebagai Variabel Moderasi

ABSTRAK

Masalah pengelolaan lingkungan semakin mendesak untuk ditangani dan menjadi perhatian pemerintah dunia dengan mewajibkan perusahaan untuk menerapkan praktik ramah lingkungan yang disebut green accounting. Tujuan penelitian ini adalah menganalisis pengaruh keputusan pembiayaan utang dan pembiayaan modal terhadap green accounting serta menguji efek moderasi profitabilitas. Penelitian menggunakan data sekunder yang diperoleh dari perusahaan manufaktur sektor industri dasar dan kimia yang terdaftar di Bursa Efek Indonesia (BEI) sejak 2021 hingga 2023. Metode penelitian adalah analisis regeresi moderasi data panel dengan terlebih dahulu menguji model yang paling fit diantara Fixed Effect Model (FEM), Common Effect Model (CEM), atau Random Effect Model (REM). Hasil penelitian menunjukkan bahwa pembiayaan utang berpengaruh negatif signifikan terhadap green accounting sebaliknya pembiayaan ekuitas berpengaruh positif signifikan terhadap green accounting. Profitabilitas tidak terbukti sebagai pemoderasi pada pengaruh pembiayaan utang dan pembiayaan ekuitas terhadap green accounting.

Kata Kunci: *Biaya Lingkungan; Green Accounting; Pembiayaan Ekuitas; Pembiayaan Utang; Profitabilitas.*

INTRODUCTION

Environmental issues have become increasingly urgent, with challenges such as climate change, pollution, and the depletion of natural resources posing significant threats to human survival. Addressing these issues requires collective efforts from individuals, governments, and international organizations. In response to these environmental challenges, the Indonesian government, through the Financial Services Authority (OJK), introduced Financial Services Authority Regulation No. 51/POJK.03/2017. This regulation mandates financial services companies, issuers, and public companies to implement and report on sustainable finance through sustainability reporting. The goal is to enhance compliance with environmental regulations and promote effective and sustainable environmental management practices.

Effective environmental management incurs operational costs, often referred to as environmental costs. Green accounting, or environmental accounting, integrates environmental costs and benefits into financial accounting practices (Sadiku et al., 2021). By encouraging greater compliance with environmental regulations and fostering sustainable practices, green accounting provides stakeholders with critical information about a company's environmental performance. Transparent disclosure of environmental and social information, a key component of green accounting, enhances corporate accountability to stakeholders, aligning with the principles of stakeholder theory. According to this theory, companies have a moral responsibility to address the interests of all stakeholders, including governments, employees, customers, communities, and the environment (Cerciello et al., 2023).

Despite the importance of green accounting, its implementation faces challenges such as limited awareness and a lack of transparency in reporting environmental impacts (Feng, 2024). Research on green accounting in Indonesia remains limited, with most studies focusing on its effects on economic performance (Junjunan et al., 2023), financial performance (Endiana et al., 2020; Handoko & Santoso, 2023), environmental performance (Rahman & Islam, 2023), and the quality of financial reporting (Herny & Herawaty, 2024). However, there is a notable gap in exploring the influence of financing decisions—specifically debt and equity financing—on green accounting practices. The closest comparable study was conducted by Chang et al. (2024), who analyzed the effects of financing decisions on green accounting in African manufacturing firms.

Chang et al. (2024) found that debt financing negatively affects green accounting, a conclusion supported by Hutabarat (2024), who argued that debt obligations often divert resources away from environmental initiatives, resulting in reduced environmental disclosures. Conversely, equity financing positively influences green accounting, as it provides companies with the flexibility to invest in long-term environmental strategies without the immediate pressures of debt repayment (Brooks & Schopohl, 2020). However, research findings are not always consistent. Corvino et al. (2020) observed a positive relationship between debt financing and sustainability disclosures in South African textile firms, while Cerciello et al. (2023) reported a negative relationship between equity financing and sustainability disclosures in Chinese companies.

To address these inconsistencies, this study introduces profitability as a moderating variable. Integrating profitability into the analysis provides a deeper understanding of the complex interplay between financing decisions and green accounting. Meilan et al. (2023) demonstrated that profitability can enhance the relationship between green accounting and corporate sustainability, as highly profitable firms are better positioned to allocate resources toward environmental initiatives.

This research contributes to the existing literature by addressing the urgent global need for sustainable environmental practices. Unlike prior studies, it offers a comprehensive examination of the effects of debt and equity financing decisions on green accounting. Focusing on Indonesia, a developing country with unique environmental and economic challenges, this study provides valuable insights into how corporate financial decisions influence environmental reporting practices. Additionally, the study introduces environmental costs as a novel measure of green accounting disclosures, building on the framework proposed by Riyadh et al. (2020).

This research aims to contribute to the field in several key ways. First, it enriches the existing literature by examining the influence of financing choices—specifically debt and equity financing—on the implementation of green accounting practices in Indonesian companies. This has practical implications for investors and policymakers, supporting sustainable investment decisions and promoting environmental accountability. Second, it provides empirical evidence within the context of manufacturing firms in developing countries, offering insights into a region where research on green accounting remains underexplored. Accordingly, the primary objective of this study is to assess the effects of debt and equity financing decisions on green accounting, with profitability as a moderating variable.

Environmental and social factors have been shown to influence loan structures and financing costs (Gao & Hoepner, 2024). A company's loan structure often depends on the type of credit it accesses—such as bank credit, bonds, or debentures—which, in turn, is influenced by the company's relationships with lenders and borrowers (Nandy & Lodh, 2012). According to stakeholder theory, creditors and other stakeholders often prioritize financial metrics over environmental performance when evaluating creditworthiness, which can reduce incentives for companies to adopt and disclose green accounting practices (Chang et al., 2024). Companies with significant debt obligations may focus on fulfilling financial commitments, leaving fewer resources for environmental initiatives (Miles, 2019). Furthermore, high debt levels can signal financial risk and instability, discouraging companies from pursuing sustainability goals (Al Amosh & Khatib, 2022).

Empirical evidence supports the negative relationship between debt financing and green accounting. Al Amosh and Khatib (2022) found that among Indonesian manufacturing firms, debt repayment pressures lead companies to prioritize short-term financial performance over long-term sustainability goals. Similarly, Gerged (2021) observed that firms with higher levels of debt financing were less likely to disclose environmental information, attributing this behavior to the urgency of meeting debt obligations. These findings suggest that companies

with higher debt levels may deprioritize environmental initiatives to ensure financial stability.

H_1: Debt financing has a negative effect on green accounting.

Stakeholder theory also posits that equity financing encourages greater disclosure of green accounting information, as it aligns with the interests of a diverse group of stakeholders beyond shareholders (Ng & Rezaee, 2012). Improved environmental disclosure has been found to reduce the cost of equity financing. For example, Su and Zhang (2019) demonstrated that higher-quality environmental disclosures correlate with lower equity financing costs, as investors perceive environmentally responsible companies as less risky. Similarly, Jianghon (2010) found that enhanced green accounting practices increase transparency, thereby reducing investor risk and the cost of equity capital.

In addition to reducing financing costs, green accounting practices help companies manage environmental costs, improve operational efficiency, and reduce waste (Halim et al., 2024). These practices signal a long-term focus, reassuring stakeholders about the company's sustainability. By integrating green accounting, firms can address environmental risks, avoid legal disputes, and maintain their long-term operational viability (Jianghon, 2010). For investors, transparent environmental disclosures are viewed positively, encouraging greater engagement with firms committed to sustainability. Shahwan and Esra'a (2021) further demonstrated a positive relationship between environmental disclosure and equity financing among Korean firms, reflecting growing investor demand for sustainability information and alignment with global standards.

H_2: Equity financing has a positive effect on green accounting.

High profitability can significantly enhance a company's engagement in pro-environmental practices. Profitable firms are more likely to allocate resources to environmentally responsible initiatives. For example, a study of companies listed on the Johannesburg Stock Exchange found that profitability drives corporate green initiatives (Ganda et al., 2015). Furthermore, green accounting practices not only enhance brand reputation but also generate cost savings and diversify revenue streams, ultimately improving the financial sustainability of environmentally responsible strategies (Shireesha et al., 2024). Consequently, higher profitability motivates companies to adopt green accounting practices, as the financial benefits of such activities become increasingly apparent.

H_3: Profitability has a positive effect on green accounting.

Profitability also plays a crucial role in enhancing the effectiveness of green accounting practices, particularly when companies rely on debt financing. Research indicates that high profitability strengthens the positive impact of green accounting on corporate sustainability, as profitable firms are more inclined to invest in environmentally responsible practices (Meilan et al., 2023). Additionally, profitability improves a company's leverage when seeking debt financing. Lenders often perceive profitable companies as lower-risk borrowers, offering them more favorable financing terms (Hutabarat, 2024). This interaction between profitability, debt financing, and green accounting suggests that companies with strong financial performance are better positioned to adopt sustainable practices and secure the necessary funding to support pro-environmental initiatives. Thus,

leveraging debt strategically can yield improved environmental outcomes when profitability is high.

H_4: Debt financing has a significant effect on green accounting, moderated by profitability.

Companies that rely on equity financing often exhibit higher levels of green accounting disclosure (Chang et al., 2024). This behavior is driven by growing shareholder demand for transparency in corporate sustainability practices. The positive relationship between equity financing and green accounting becomes more pronounced when companies achieve high profitability. Profitable firms can allocate greater resources to pro-environmental initiatives, improving both environmental performance and the quality of financial reporting (Herny & Herawaty, 2024). Additionally, strong profitability enhances investor confidence, increasing the company's attractiveness to investors and potentially creating greater opportunities for equity financing. By leveraging their financial health, profitable firms can promote green accounting practices, enhance financial transparency, and build investor trust. Ultimately, profitability not only supports the adoption of green accounting practices but also strengthens the link between equity financing and corporate environmental accountability.

H_5: Equity financing has a significant effect on green accounting, moderated by profitability.

RESEARCH METHODS

The population for this study comprised 73 manufacturing companies in the basic industrial and chemical sectors listed on the Indonesian Stock Exchange (IDX). The sampling technique employed purposive sampling, with the following criteria: (a) manufacturing companies in the basic industrial and chemical sectors that were continuously registered during the 2021–2023 period, and (b) companies that provided data on environmental costs, total debt, total equity, total assets, and total profit in their financial reports, annual reports, or sustainability reports. Based on these criteria, 29 companies qualified as the research sample for three consecutive periods, resulting in a total of 87 observations.

The study used debt financing and equity financing as independent variables and profitability as a moderating variable. Debt financing and equity financing represent a company's capital acquisition strategies. Debt financing involves borrowing funds, while equity financing entails issuing company shares. Debt financing was measured as the ratio of total debt to total assets, and equity financing was measured as the ratio of total equity to total assets (Chang et al., 2024). Profitability, reflecting the level of profit a company achieves, was measured by Return on Assets (ROA), calculated as total profit divided by total assets. The dependent variable, green accounting, was assessed using environmental costs (Riyadh et al., 2020).

The study employed moderated regression analysis (MRA) on panel data to address the research objectives, as panel data combines time-series and cross-sectional dimensions. Prior to conducting the MRA, the panel data was subjected to tests to identify the most appropriate model: Fixed Effect Model (FEM), Common Effect Model (CEM), or Random Effect Model (REM). Following model

selection, moderated regression analysis was performed using the specified regression equation to evaluate the relationships between the variables.

$GA = \alpha + \beta PU + \beta PE + \varepsilon$ ..... (1)

$GA = \alpha + \beta PU + \beta PE + \beta ROA + \varepsilon$ ..... (2)

$GA = \alpha + \beta PU + \beta PE + \beta ROA + \beta PU*ROA + \beta PE*ROA + \varepsilon$ ..... (3)

Where:

GA	: Green Accounting	ROA	: Return on Assets
PU	: Debt Financing	β	: Coefficient
PE	: Equity Financing	ε	: Model Error

RESULTS AND DISCUSSION

Before carrying out moderated regression analysis, the appropriate model test is first carried out. Below are presented the results of testing a model that is fit for research.

Table 1. Chow Test Results

Redundant Fixed Effects Tests			
Test cross-section fixed effects			
Effects Test	Statistic	d.f.	Prob.
Cross-section F	57.464	(28,56)	0.000
Cross-section Chi-square	295.124	28	0.000

Source: Research Data, 2024

The Chow Test results show that the probability value is 0.000 < 0.05 its rejects H0 and accepts H1. So the appropriate model is the Fixed Effect Model (FEM). Next, the Hausman Test will be carried out to choose the right model between the Random Effect Model (REM) and the Fixed Effect Model (FEM).

Table 2. Hausman Test Results

Correlated Random Effects - Hausman Test			
Test cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.553	3	0.907

Source: Research Data, 2024

The Hausman Test results show that the probability value is 0.9070 > 0.05 so that the decision taken is to accept H0 and reject H1. So the model chosen is the Random Effect Model (REM). This research has gone through the classical assumption test and it is stated that the data is normally distributed, there is no autocorrelation or multicollinearity so the data and model are suitable for further analysis.

Table 4. Multiple Linear Regression Test Results Equation 1

Dependent Variable: Y
Method: Panel EGLS (Cross-section random effects)
Total panel (balanced) observations: 87

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	34798447	22890768	1.520	0.132
X1	-60716087	26501033	-2.291	0.024
X2	58820158	25474610	2.308	0.023

Source: Research Data, 2024

Using the data displayed by the Random Effect Model, the regression equation is prepared as follows.

Y = 0,34 - 0,60X1 + 0,58X2 + e ……...……..……. (1)

The results of the regression analysis revealed a probability value for debt financing (X1) of 0.0245, which is less than the significance threshold of 0.05. Therefore, H1 is accepted, and H0 is rejected, indicating that debt financing has a significant negative effect on green accounting. This suggests that higher levels of debt financing are associated with lower corporate involvement in green accounting practices. According to stakeholder theory, creditors prioritize financial metrics over environmental performance when assessing creditworthiness, thereby reducing the incentive for companies to engage in pro-environmental initiatives (Miles, 2019). Moreover, companies with substantial debt obligations may focus on meeting financial commitments, such as loan principal and interest payments, at the expense of green accounting programs.

This finding aligns with the results of Chang et al. (2024), who observed that companies relying heavily on debt financing exhibit lower levels of participation in green accounting compared to those using equity financing. Such behavior underscores a negative correlation between debt dependence and environmental transparency. The pressures of debt repayment often compel companies to prioritize short-term financial performance over long-term sustainability objectives (Al Amosh & Khatib, 2022). Additionally, research on green credit policies demonstrates that such policies tend to limit debt financing, further highlighting the inverse relationship between debt financing and environmental compliance (Yang & Zhang, 2022; Zeng et al., 2023).

The probability value for equity financing (X2) was 0.0234, which is also less than 0.05. Consequently, H2 is accepted, and H0 is rejected, confirming that equity financing has a significant positive effect on green accounting. Companies that depend on equity financing tend to exhibit higher levels of green accounting disclosure compared to those relying primarily on debt financing (Chang et al., 2024). Increased disclosure reflects efforts to enhance transparency and accountability in environmental reporting, which is highly regarded by investors. Furthermore, green accounting has been shown to positively influence financial performance metrics, such as return on assets and earnings per share (Triwacananingrum & 'Alim, 2024). Participation in green accounting also signals compliance with environmental regulations, thereby strengthening stakeholder confidence and encouraging investment (Subhani et al., 2023). These findings suggest that companies funded through equity are more inclined to adopt and engage in green accounting practices.

Table 5. Multiple Linear Regression Test Results Equation 2

Dependent Variable: Y
Method: Panel EGLS (Cross-section random effects)
Total panel (balanced) observations: 87

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	31985731	23919849	1.337	0.184
X1	-58510759	27031695	-2.164	0.033
X2	56460454	26061658	2.166	0.033
X3	8631576.	16896267	0.510	0.610

Source: Research Data, 2024

Y = 0,31 – 0,58X1 + 0,56X2 + 0,86X3 + e ……..…….. (2)

The profitability variable (X3) exhibited a t-statistic of 0.51 with a probability value of 0.61, which exceeds the significance threshold of 0.05. Therefore, it can be concluded that profitability does not have a significant effect on green accounting, leading to the rejection of H3, which hypothesized a significant relationship. This finding suggests that not all profitable companies prioritize environmental responsibility, as some may focus solely on short-term financial gains. These results are consistent with the study by Purwanti et al. (2024), which found that environmental performance, a key component of green accounting, does not significantly affect profitability in the basic industry and chemical sectors. This implies that good environmental performance does not necessarily translate into higher profits.

Additionally, a study by Vinayagamoorthi et al. (2015) highlights that while highly profitable companies prioritize financial outcomes, some avoid active engagement in environmental protection due to the perception that environment-related expenditures constitute a financial burden. Furthermore, Stolka and Szarek (2016) found that the adoption of green accounting is often influenced by complex external and internal barriers encountered by managers, limiting the correlation between high profitability and proactive environmental practices. These findings underscore that while profitability is a critical measure of company performance, it is not the sole determinant of a company's commitment to sustainability and green accounting practices.

Table 6. Multiple Linear Regression Test Results Equation 3

Dependent Variable: Y
Method: Panel EGLS (Cross-section random effects)
Total panel (balanced) observations: 87

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	25958419	52387305	0.495	0.621
X1	-22710287	62012375	-0.366	0.715
X2	39526424	56597774	0.698	0.486
X3	26361157	1.36E+08	0.194	0.846
X1_X3	-95017922	1.62E+08	-0.587	0.558
X2_X3	39483796	1.39E+08	0.284	0.776

Source: Research Data, 2024

Y = 0,25 – 0,22X1 + 0,39X2 + 0,26X3 – 0,95X1*X3 + 0,39X2*X3 + e ……..... (3)

The interaction between debt financing and the moderating variable (profitability) yielded a t-statistic value of 0.58 with a probability of 0.55, which exceeds the significance threshold of 0.05. Therefore, it can be concluded that profitability does not moderate the effect of debt financing on green accounting. As a result, H4, which posited that debt financing has a significant effect on green accounting moderated by profitability, is rejected. Similarly, the interaction between equity financing and profitability produced a t-statistic value of 0.28 with a probability of 0.77, which also exceeds 0.05. Thus, profitability does not moderate the effect of equity financing on green accounting, leading to the rejection of H5.

These findings suggest that the relationship between debt and equity financing with green accounting is not significantly moderated by profitability.

This highlights the possibility that other factors, such as industry context or company size, may play a more pivotal role in shaping these relationships. The results align with the findings of Yuliani and Prijanto (2022), who observed in the coal mining sector that while green accounting positively influences company value, profitability does not moderate this relationship. This indicates that the moderating role of profitability may vary across industries, underscoring the need for further research to identify context-specific factors influencing green accounting practices.

CONCLUSION

The findings of this research indicate that debt financing has a significant inverse effect on green accounting, while equity financing has a significant positive effect. However, profitability does not have a significant direct effect on green accounting, nor does it serve as a significant moderating variable in the relationships between debt financing, equity financing, and green accounting. Companies with a higher proportion of debt financing are constrained in their ability to engage in pro-environmental activities, likely due to the financial pressures associated with debt repayment. Conversely, companies with greater capital derived from equity financing demonstrate an enhanced capacity to participate in and disclose green accounting practices. Nonetheless, high profitability does not necessarily correlate with environmental responsibility, suggesting that profitability alone is not a sufficient driver for green accounting practices.

The results of this study contribute both theoretical and practical insights. From a theoretical perspective, the findings expand the understanding of how financing decisions influence green accounting practices, particularly in the context of manufacturing companies in developing economies. From a practical standpoint, the research provides actionable recommendations for policymakers, company leaders, and stakeholders to promote sustainable development and responsible business practices. The study offers a framework for manufacturing firms to evaluate and enhance their environmental reporting practices, enabling investors to make informed decisions based on sustainability factors. Additionally, the findings encourage businesses to align corporate financial strategies with environmentally friendly initiatives.

Despite its contributions, this study has limitations regarding the variables examined. Other factors influencing companies' engagement in and disclosure of environmental information may further enrich the understanding of green accounting practices. Future research could explore additional variables, such as regulatory frameworks, stakeholder pressures, or corporate governance, to provide a more comprehensive analysis of the drivers of green accounting adoption.

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