Impact of Implementing Green Accounting and Capital Structure on Profitability

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ABSTRACT
The Sri Kehati Index's financial performance increase between 2017 - 2020 is the driving force behind this study. This research suggests that companies that are members of the Sri-Kehati Index improve environmental performance in the face of environmental damage caused by companies, as evidenced by the increase in performance on the Sri-Kehati Index. This study aims to examine the impact of green accounting and capital structure on the profitability of the Indonesia Stock Exchange's Sri Kehati Index for the years 2017–2020. Environmental performance, costs, and disclosure are used to measure green accounting. The debt-to-equity ratio (DER) is used as an independent variable to measure capital structure, and return on assets (ROA) is used to measure profitability. Purposive sampling is the research method used; 11 companies make up the sample, which was chosen through a process called sample selection. Multiple linear regression analysis with a significance level of 0.05 is used in this study using SPSS version 26. The study's findings indicate that while environmental costs and the debt-to-equity ratio have a significant negative impact on profitability, environmental performance, and environmental disclosure have a positive and significant impact on profitability.

Keywords: green accounting; profitability; capital structure.

1. INTRODUCTION

The Carbon Disclosure Project (CDP) and the Indonesian Stock Exchange (IDX) inked a memorandum of understanding on June 15, 2022, to promote environmental reporting by businesses and to align reporting with the Task Force on Climate-related Financial Disclosures (TCFD) in Indonesia. As is known, Asia Pacific, more broadly, and Indonesia in particular, have stated their vulnerability to climate change. CDP hopes to provide the input, expertise, and data it already has to support the implementation of this collaboration. In response to this collaboration, it is hoped that the company will realize more ambitious environmental conservation actions in the region with impressive leadership in its commitment to sustainability principles. This collaboration aims to overcome the obstacles faced in carrying out complete reporting.

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the SRI-Kehati index, which experienced a significant increase from January 2017 to January 2021, amounting to 18% compared to the LQ45 and IDX30 indexes of no more than 5%.

As can be observed from the above data, several firms had a fall in their company finances that year, particularly those included in the SRI-Kehati, LQ45, and IDX30 indexes. It would have been hazardous for the company. The incident affected the financial performance of the respective companies. If the company's finances decline, its financial performance also declines. In this case, we already know how crucial financial performance is to a company. Financial performance analysis ensures that a business has followed its financial implementation guidelines wholly and accurately (Meiyana, 2018). The concept of green accounting was developed in Europe starting in 1970. Generally referred to as environmental costs, green accounting is the application of accounting in which businesses include environmental welfare and preservation in their costs.

Green accounting informs outside parties about the company's potential impact on the environment and the community's quality of life, both positively and negatively. Businesses must give back to the communities in which they live. A company's responsibility to society and the environment increases with its level of profitability. The business will likely be able to combat the effects of its operations.

PT Lapindo is one of the Indonesian companies that has harmed the environment. On May 29, 2006, Lapindo mud began to bubble up from the earth in the East Java region. The rupture originated from the Brantas Block gas exploration drilling operations, specifically the Banjar Panji 1 Well located in Porong, Sidoarjo, East Java. Three sub-districts had their residential, agricultural, and industrial areas submerged for several months due to the Lapindo mudflow. Sulistyawati and Dirgantari (2016) assert that if a business ignores the effects of its actions, its attempts to increase profits to enhance performance will be severely impacted.

Businesses that use green accounting aim to reduce future environmental risk and gain a competitive edge through sustainable production practices. According to Wahyuningtyas et al. (2022), businesses are urged to improve their ecological knowledge, maximize resource efficiency, lessen their adverse environmental effects, and show greater responsibility to their workers and the community. The company's financial results will improve due to significant social benefits. A positive company image will pique consumers' interest in making purchases, which will boost sales and impact the business's bottom line. Additionally, a positive reputation can make investments from investors more appealing. An increase in the price of company shares indicates an increase in the index. It conveys a different message, indicating that to preserve the company's reputation, information must be given to outside parties.

The results of the hypothesis test conducted by Chasbiandani et al. (2019) and several earlier studies indicate that green accounting significantly and favorably affects financial performance. Hamidi (2019) looked at how green accounting affected the financial performance of businesses. This study demonstrates the beneficial impact of green accounting on a business's bottom line. Return on assets (ROA) is positively impacted by the debt-to-equity ratio, according to (Aprilia, 2018). It contrasts with the findings of Warnoto's (2018) study, which showed that the debt-to-equity ratio unaffected the return on assets. As a result, businesses prioritizing environmental sustainability will see strong financial results since they prioritize protecting the environment and making profits.

2. LITERATURE REVIEW

According to Dowling and Pfeffer (1975), legislation is crucial for organizations. The importance of considering the environment when analyzing organizational behavior is reinforced by the boundaries emphasized by social norms and values and the responses to these boundaries. Social disclosure, which suggests that companies disclose their
environmental activities because it is required by the society in which it operates and that not disclosing could negatively affect the company, is also related to this theory. Consequently, the public will view organizations that prioritize environmental sustainability favorably.

The company can be perceived as supporting sustainable development if the community is assured that the company’s operations do not negatively impact the environment or the community by maintaining a positive environmental image. By implementing programs that prioritize sustainable development, the community does not reject the company’s existence, and as a result, the company will reap good results. According to Anggito & Setiawan (2018), signaling theory comes from asymmetric information, which explains why managers have a conflict with creditors and investors who come from outside the company and have complete knowledge about the company’s prospects. Leverage ratios, represented by debt ratios, are associated with signaling theory. A company's ability to repay its debts over the short and long terms and the amount of funds it raises through debt can be assessed using the debt-to-equity ratio.

A company may find it challenging to pay off its debt if it uses debt more frequently. The company will send a positive message to investors if its debt-to-equity ratio is low. Signaling theory and debt ratios: Using capital or borrowed money to boost a company’s earnings is known as leverage. This money will be used for business operations and to increase equity in the company.

Because a company can achieve high profits when the activity ratio is high, a lower debt-to-equity ratio (DER) will be a positive indicator to increase its return on assets. The corporation will make more money if its activity ratio is high. According to the Pecking Order Theory, managers will utilize retained earnings as their primary funding source, followed by debt and external equity as a last option. A manager will first decide whether to use retained earnings, then debt and finally outside capital as a sequence of funding decisions known as the "pecking order." The (Aprilia, 2018).

The debt-to-equity ratio (DER) value provides an overview of a company's capital and debt levels in comparison. The debt the company has, secured by its capital, increases with the debt-to-equity ratio (DER). In order to explain how the debt-to-equity ratio (DER) affects return on assets in this situation, the pecking order is employed as a tool. Debt is imposed on a company’s capital structure in proportion to its debt-to-equity ratio.

A company's performance is directly correlated with its ability to manage its debt effectively to generate profits, which can boost the return on assets of the business. The premise of the stakeholder theory is that because a business has become so large and the public is already involved in it, it must express responsibility and accountability to a broader audience than just its shareholders. According to Khairudin and Wandita (2017), businesses and stakeholders exert influence over one another to accomplish mutual objectives.

A company's reputation is among the most crucial factors in the business realm. Notable indicators of the business's performance are its reputation's positive and negative aspects. Managing a reputation company can be difficult, but the effort will pay off—a few significant problems with society's perceptions of reputation and management reputation.

According to legitimacy theory, the larger community can influence how financial and economic resources are allocated. Businesses frequently use environmental reporting requirements and performance metrics to support their business operations in the eyes of the public. According to the legitimacy theory of environmental performance, a company's image may be jeopardized if its values are not aligned with society's values. It is specifically related to the possibility of a company losing its legitimacy. Consequently, the company's profitability, as measured by its annual return on assets, is influenced by its environmental performance.

According to legitimacy theory, companies' attempts to participate in environmental management are motivated by a desire for legitimacy. According to stakeholder theory, this company's initiatives aim to lessen

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stakeholder disputes. According to (Sari and Wahuningtyas (2020), companies prioritizing environmental welfare and costs have a greater chance of winning over stakeholders. Damage to the environment, for instance, will affect the neighborhood. Businesses that deny responsibility for environmental harm resulting from their operations will face backlash from the public and eventually lose their credibility. It is why businesses' contributions to solving environmental issues can lessen tensions between businesses and society. Furthermore, the company's environmental preservation initiatives may gain credibility with stakeholders.

Environmental performance can affect profitability based on how environmental performance variables and profitability relate. Research by Fitriani (2013), Arefa (2017), Setiawan et al. (2016), and Haninun et al. (2017), whose findings indicate that environmental performance has a positive impact on a company's profitability, supports this. Here is a hypothesis:

**H1: Environmental performance has a positive effect on profitability.**

The company will allocate environmental costs when implementing environmental management to mitigate its impact. Some businesses think these environmental expenses will make their workload heavier and lower their earnings. Apart from that, though, the distribution of environmental expenses can boost public confidence in the business since it has demonstrated care for the environment, contributing to higher profits for the enterprise.

A vital component of the business's effort to actively address social and environmental issues is environmental disclosure. The economic, social, and environmental aspects are all revealed in the CSR (corporate social responsibility) report. Profit, people, and the environment are the three Ps that businesses must consider if they hope to thrive in their sector. Customers' interest in purchasing environmentally friendly products will increase due to the public's reaction to corporate environmental disclosures. The company's sales level will rise as a consequence. In addition, it will raise stakeholder views and enhance the company's reputation, both of which will contribute to increased shareholder value. Therefore, raising profitability will be impacted by these factors.

Environmental costs are assumed to affect profitability based on the correlation between environmental cost variables and profitability. Research by Rohelmy et al. (2015) and Putra et al. (2017), which discovered that environmental costs significantly positively affect ROA, supports this.

**H2: Environmental costs have a positive effect on profitability.**

Sustainability Disclosure's Impact on Business Profitability Companies can gain legitimacy by disclosing their environmental and social responsibility, which can help them gain credibility. Dowling & Pfeffer (1975). According to the legitimacy theory, environmental disclosure is a tool used to persuade stakeholders to give the company legitimacy (Brennan & davies, 2013). According to Brennan & davies (2013), environmental disclosure can also reduce unhappy responses from the company's stakeholders.

Sustainability Disclosure's Impact on Business Profitability Companies can gain legitimacy by disclosing their environmental and social responsibility, which can help them gain credibility. According to the legitimacy theory, Dowling & Pfeffer (1975), environmental disclosure is a tool to persuade stakeholders to give the company legitimacy (Brennan & davies, 2013). According to Brennan & davies (2013), environmental disclosure can also reduce unhappy responses from the company's stakeholders.

A company's ability to mitigate social and environmental impact risks can be aided through environmental disclosure. A corporate social responsibility (CSR) report reveals social, environmental, and economic factors. The 3Ps—profit, people, and planet—are crucial for businesses to understand if they hope to thrive in their sector. The public will react to corporate environmental disclosures, so buyers of ecologically friendly goods will become more interested. The business will see an increase in sales as a consequence. In addition, it will simultaneously enhance stakeholder perceptions and the company's image, which

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will raise shareholder value even more. It follows that these factors will affect profitability growth.

Sustainability is assumed to affect profitability based on the correlation between environmental disclosure variables and profitability. Studies (Brennan & Davies, 2013), which discovered a substantial impact of environmental disclosure on economic performance, support this. Environmental disclosure and performance had a strong positive impact on financial performance by Haninnun et al. (2018). As a result, the investigator came up with this theory:

**H3:** Environmental disclosure has a positive effect on profitability.

The company's ability to achieve a profit will be impacted by funding policies in the debt-to-equity ratio (DER). The average cost of capital (weighted average cost of capital) will be lower, and the return on assets (ROA) will be higher if the cost of debt, as represented in the cost of borrowing, is lower than the cost of capital itself (Brigham & Houston, 2001). The pecking order theory provides a funding sequence in which managers will select to use retained earnings initially, followed by debt and external equity as a last option (Brigham & Houston, 2001).

A corporation may benefit from transferring funds from its long-term debt to boost its return on assets if its capital structure is vital, as indicated by a high long-term debt-to-equity ratio (Aprilia, 2018). Long-term business operations require a capital structure financed by debt and assets (Setiawan & Wahyuningtyas, 2022). Making the best use of capital can draw investors and enhance financial performance. A business with a higher derivative value will expand its range of products to boost ROA.

As per the findings of Wanny et al.’s (2019) research, return on assets (ROA) is positively impacted by the debt-to-equity ratio (DER). This explanation leads to the formulation of the following hypothesis: Thus, the following hypothesis is put forth:

**H4:** The debt-to-equity ratio has a positive effect on profitability.

### 3. RESEARCH METHOD

#### 3.1. Research Methodology

Research of this kind is categorized as quantitative. Research that uses a lot of numerical data, from collection through interpretation and study outcomes, is known as quantitative research. Quantitative research can be processed using mathematical or statistical calculation techniques, depending on the data format. Descriptive-quantitative research design is used in this study, meaning that a variable's value is being tested and analyzed.

#### 3.2. Data Collection Techniques

The kind of data utilized in this study is secondary data or data gathered from a different source that was already available before the study was carried out. The websites of the businesses sampled from 2017 to 2021 on the Sri-Kehati Index of the Indonesian Stock Exchange (IDX) and the official website of the Indonesian Stock Exchange, www.idx.co.id, are the sources of the data used to compile company financial reports.

#### 3.3 Operational Definitions of Variables

<table>
<thead>
<tr>
<th>Variables</th>
<th>Measurement</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dependent Variables:</strong> Profitability</td>
<td>$\text{ROA} = \frac{\text{Net Profit}}{\text{Total Asset}}$</td>
</tr>
</tbody>
</table>
| **Independent Variables:** Environmental Performance | **PROPER level (www.menlhk.go.id):**  
  1. Gold (Very Good) Score 5  
  2. Green (Good) Score 4 |

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3.3. Sample Collection Techniques

The study’s subjects were the Sri-Kehati index companies listed on the Indonesia Stock Exchange (BEI) and submitted all of their financial reports for the years 2017 through 2021. A sample of the research period 2017–2021 was obtained in compliance with the sampling protocol used during that time. 44 data examinations. Purposive sampling was utilized in the selection process to obtain the sample results.

Table 2: Variable Measurement

<table>
<thead>
<tr>
<th>Description</th>
<th>No Of Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Companies on the Sri-Kehati Index that publish financial reports on the IDX for 2017 - 2021.</td>
<td>25</td>
</tr>
<tr>
<td>Companies that consistently join the Sri-Kehati Index list for 2017-2020.</td>
<td>(10)</td>
</tr>
<tr>
<td>Companies that are not included in the IDX financial sector.</td>
<td>(4)</td>
</tr>
<tr>
<td>Number of research samples.</td>
<td>11</td>
</tr>
<tr>
<td>Total sample data for research four years.</td>
<td>44</td>
</tr>
</tbody>
</table>

3.4. Data Analysis Techniques

Return on asset is the dependent variable (Y) in this investigation. Environmental cost, performance, disclosure, and debt-to-equity ratio are independent variables. The statistical software used for the descriptive statistical test is SPSS version 26, or the Statistical Product and Service Solution for Windows version 26.0. According to (Ghozali, 2018), the classical assumption test guarantees that the sample is homogeneous, regular, autocorrelation-free, and heteroscedastic. Multiple linear regression analysis is a test to ascertain how the independent variables affect the dependent variable. (SPSS) was used to analyze all the data. The multiple regression analysis equations are:

\[ Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e \]

Where:
- \( Y \) = Profitability
- \( \alpha \) = Constant
- \( \beta_1 \) = Coefficients
- \( X_1 \) = Environmental Performance
- \( X_2 \) = Environmental Cost
- \( X_3 \) = Environmental Disclosure
- \( X_4 \) = Debt to Equity Ratio
- \( e \) = error

4. RESULTS AND DISCUSSIONS

4.1. Results

Table 3: Statistic Descriptive

<table>
<thead>
<tr>
<th>Variables</th>
<th>N</th>
<th>Mean</th>
<th>SD</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dependent variables:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profitability</td>
<td>44</td>
<td>7,545</td>
<td>10,607</td>
<td>-9,720</td>
<td>46,520</td>
</tr>
<tr>
<td><strong>Independent variables:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environmental Performance</td>
<td>44</td>
<td>3,636</td>
<td>0,486</td>
<td>3,000</td>
<td>4,000</td>
</tr>
</tbody>
</table>

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Environmental Performance, Environmental Costs, Environmental Disclosure, Debt to Equity Ratio, and Return on Assets comprise the 44 total research data, as determined by the statistical results and descriptive table 3. Thus, it can be said: The average value of the environmental performance analysis, as determined by descriptive statistical tests, is 3.6364. Meanwhile, the standard deviation is 0.48661. In the meantime, 3.00 and 4.00 are the lowest and maximum values. There is a slight data variation in green accounting because the standard deviation value of the environmental performance variable is less than the average value.

The average value is 0.0452, according to the findings of this descriptive statistical analysis. The minimum and maximum values are -0.02 and 0.41, respectively, and the standard deviation is 0.06906. Given that the environmental cost variable's standard deviation is greater than the average, there is a high degree of data variation in environmental costs.

The environmental disclosure results of this descriptive statistical analysis indicate that the average value is 0.5293. The standard deviation, meanwhile, is 0.2235. In the meantime, 0.51 and 0.58 represent the lowest and maximum values. There is slight data variation in environmental disclosure because the standard deviation value of the environmental cost variable is higher than the average.

Equity-to-Debt Ratio The findings of this descriptive statistical analysis indicate that the standard deviation is 0.90837, and the average value is 1.2677. In the interim, 0.19 and 3.31 represent the lowest and maximum values. Because the environmental cost variable's standard deviation value is less than the average, there is slight data variation in the debt-to-equity ratio.

The descriptive statistics analysis shows that the average return on assets is 7.5448, with a standard deviation of 10.60774. In the meantime, -9.72 and 46.52 are the lowest and maximum values. The return on assets variable has a higher standard deviation value than the average, indicating a high degree of data variation in the return on assets.

The results of the Kolmogorov Smirnov (K-S) test indicate that the data is normally distributed, as shown in figure 4. The rejection of values above $\alpha = \text{Ha}$ is evident from the

<table>
<thead>
<tr>
<th>Variables</th>
<th>N</th>
<th>Mean</th>
<th>SD</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental Cost</td>
<td>44</td>
<td>0.045</td>
<td>0.069</td>
<td>-0.010</td>
<td>0.410</td>
</tr>
<tr>
<td>Environmental Disclosure</td>
<td>44</td>
<td>0.530</td>
<td>0.022</td>
<td>0.510</td>
<td>0.580</td>
</tr>
<tr>
<td>Capital Structure</td>
<td>44</td>
<td>1.268</td>
<td>0.908</td>
<td>0.190</td>
<td>3.310</td>
</tr>
</tbody>
</table>

Source: Proceed by SPSS, 2022

Figure 4: Normality Test

<table>
<thead>
<tr>
<th>N</th>
<th>44</th>
</tr>
</thead>
</table>

Source: Proceed by SPSS, 2022

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significance level of 0.152. This research model satisfies the traditional assumption test of normalcy since the data is normally distributed.

**Table 5: Multicollinearity test**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coefficient Variance</th>
<th>Tolerance</th>
<th>Centered VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental Performance</td>
<td>0.142</td>
<td>0.954</td>
<td>1.049</td>
</tr>
<tr>
<td>Environmental Cost</td>
<td>-0.195</td>
<td>0.982</td>
<td>1.018</td>
</tr>
<tr>
<td>Environmental Disclosure</td>
<td>0.232</td>
<td>0.962</td>
<td>1.039</td>
</tr>
<tr>
<td>Capital Structure</td>
<td>0.264</td>
<td>0.946</td>
<td>1.057</td>
</tr>
</tbody>
</table>

*Source: Proceed by SPSS, 2022*

It can be inferred from table 5’s results that there are no signs of multicollinearity for the variables environmental costs, environmental disclosure, debt to equity ratio, and return on assets. This is because each independent variable has a tolerance value of more than 0.10 and a VIF value of less than 10.0. Since there were no VIF values greater than 10.0 and tolerance values less than 0.10, the multicollinearity test was passed by the model. Multicollinearity testing was conducted by calculating correlation coefficients between independent variables in this study. As a result, no symptoms of multicollinearity were found between the independent variables.

**Table 6: Regression test**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coefficient</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental Performance</td>
<td>0.345</td>
<td>0.012</td>
</tr>
<tr>
<td>Environmental Cost</td>
<td>-0.323</td>
<td>0.018</td>
</tr>
<tr>
<td>Environmental Disclosure</td>
<td>0.230</td>
<td>0.095</td>
</tr>
<tr>
<td>Capital Structure</td>
<td>-0.292</td>
<td>0.033</td>
</tr>
<tr>
<td>R-square</td>
<td>0.359</td>
<td></td>
</tr>
<tr>
<td>Prob(F-statistic)</td>
<td>0.002</td>
<td></td>
</tr>
<tr>
<td>Observations</td>
<td>44</td>
<td></td>
</tr>
</tbody>
</table>

*Source: Proceed by SPSS, 2022*

The T-test’s findings on financial performance in Table 6 indicate that a positive beta value of 2.636 and a significant result of 0.012, or less than 0.05, are displayed for the environmental performance variable (X1). If the return on assets is positively impacted by the environmental performance variable (X1), H1 is supported.

A negative beta value of -2.471 and a significance result of 0.018, or less than 0.05, are displayed for the environmental cost variable (X2). If the return on assets is negatively impacted by the environmental cost variable (X2), H2 is rejected.

A significant result of 0.095, or more than 0.10, is shown for the environmental disclosure variable (X3), with a positive beta value of 1.715. H3 is approved, provided that the environmental cost variable (X3) improves return on assets.

H4 is rejected since the capital structure variable (X4) hurts return on assets, and the debt-to-equity ratio variable (X4) has a significance result of 0.033, or less than 0.05, with a negative beta value of -2.207.

4.2. Discussion

The Impact of Sustainability on Financial Performance According to Sulistyawati and Dirgantary (2016), legitimacy theory highlights the need for organizations to generally consider the rights of the public in addition to investors’ rights. The alignment of society, government, individuals, and community groups is the central theme of legitimacy theory, a company management system. It demonstrates the social

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contract between businesses and society and the accessibility of environmental and social data. The study's findings demonstrate that environmental performance increases profitability; the t-test value of 2.636 and the significance value of 0.012 signify an error rate of less than 0.05 and a beta value of 0.345, respectively, indicating that H1 is accepted. Results obtained from partial tests indicate that the SRI-Kehati index's profitability is influenced by environmental performance. It demonstrates that a company's excellent or poor PROPER rating is one of the variables influencing its profitability, as demonstrated by its profitability. Many businesses have implemented effective environmental management, including PT Astra Internasional Tbk (ASII.JK), which conducted an assessment of its samples in 2020. It has been demonstrated that this company has established an integrated agricultural system at KBA Suntenjaya, specifically by employing the vermicomposting technique (worm waste) to turn animal waste into an organic fertilizer that is safe for the environment. These benefits are believed to be one of the elements that influence how environmental performance affects profitability, as it will impact the company's reputation. The present study's findings are consistent with those of Arefa (2017) and Setiawan et al., 2018, who have demonstrated that environmental performance positively impacts return on assets. The public will welcome a business that maintains a positive reputation for environmental management.

On the other hand, it would be preferable if the business showed more environmental concern if it currently shows little. Therefore, the only businesses willing to reveal their environmental actions are those that have good information. Clearly define how data analysis results are interpreted, address research problem identification, connect to earlier studies, and progress the field beyond current knowledge.

The study's second hypothesis, H2, is rejected because the partial test results indicate that environmental costs hurt profitability. It demonstrates how rising environmental expenses result in declining profitability, as demonstrated by ROA. Based on the testing results, environmental costs, which are anticipated to require a long-term investment, cannot be demonstrated in this study. It is conceivable since environmental expenses eventually affect business profitability. The study's findings demonstrate that environmental expenses harm profitability; the hypothesis is rejected because the t-test value of -2.471 and the significance value of 0.018 points to an error rate of less than 0.05 and a beta value of -0.323. The values are 0.04 and 0.03, based on sample data from PT. Kalbe Farma Tbk's (KLBF.JK) environmental cost calculations for 2019–2020, while the profitability calculation results for 2020–2021 are 12.11 and 12.40. It indicates that the sample supports the idea that a company's profitability will rise if environmental costs decline. Therefore, these criteria rule out this research, concluding that environmental expenses hurt business profitability. Thus, it can be said that environmental costs hurt profitability because, on the one hand, profitability increases when a company engages in less environmentally cost-intensive activities, and, on the other hand, profitability decreases when environmental costs increase. The study's findings support Dewata et al. (2018) and Putra et al. (2017), who found that environmental costs harm the return on assets. The weight of a company's environmental costs will rise when it turns them into a recurring obligation. Profits will consequently decline, which will have an impact on a company's level of profitability.

The statistical tests conducted with the SPSS 26 software indicate that environmental disclosure positively affects profitability on the SRI-Kehati index, indicating the acceptance of hypothesis 3 (H3). It demonstrates that the return on assets is independent of the completeness of the company's disclosure of environmental information. According to signaling theory, companies' social and environmental initiatives inform investors about their potential for future returns. With a t-test value of 1.715 and a significance value of 0.095, which indicates an error rate greater than 0.10 and a beta value of 0.230, the research's findings demonstrate that environmental information has a positive impact on profitability.
disclosure, or corporate social responsibility, positively impacts profitability. The environmental disclosure calculations for the company PT Wijaya Karya (Persero) Tbk (WIKA.JK) for 2017–2018 yielded values of 0.54 and 0.55, based on sample data. The 2018–2019 profitability calculation yielded results of 2.92 and 3.68. It indicates that the sample supports the hypothesis that environmental disclosure raises profitability to some extent.

The determining factor is that businesses typically appropriately disclose environmental information. It is to keep up the company's good reputation. Aside from that, investors are not concerned about the possibility of environmental issues in Indonesia yet. It is because businesses included in the SRI-Kehati index have complied with Bapepam's requirements for environmental disclosure, which positively impacts both environmental disclosure and profitability. The findings of this study support those of Ningtyas & Triyanto (2017) and Kusuma (2017), who found that environmental disclosure increases profitability.

5. CONCLUSIONS

This study aims to investigate and elucidate the impact of environmental performance, environmental costs, environmental disclosure, and debt-to-equity ratio on profitability (ROA) of the SRI-Kehati Index, which is listed on the Indonesia Stock Exchange during the 2014-2018 timeframe. This study's dependent variable is profitability, while environmental performance, environmental costs, environmental disclosure, and debt-to-equity ratio are the independent factors. Quantitative data were used in this study, and secondary data sources included the websites of the companies sampled in the research, www.indopremier.com, annual financial reports published on the Indonesia Stock Exchange (BEI) website, www.idx.co.id, and PROPER reports on the Ministry of the Environment's website, proper.menlhk.go.id. SPSS 26 was utilized for data processing in this study.

According to (Aprilia, 2018), a Pecking Order is a sequence of funding decisions made by company managers: retained earnings are used first, followed by debt and external capital. Pecking order theory supports the research findings based on its theoretical explanation. Through a t-test value of -2.207 and a significant value of 0.033—indicating that the error rate is less than 0.05 and a beta value of -0.292—the research findings demonstrate that the debt-to-equity ratio hurts profitability. As a result, H4 is rejected. The company PT Astra International Tbk (ASII.JK) had debt-to-equity ratio results in 2019–2020 of 0.88 and 0.73 and profitability results in 2020–2021 of 4.78 and 5.50, based on sample data. Accordingly, the sample demonstrates that the company's profitability value will rise and vice versa if the debt-to-equity ratio falls. Given these circumstances, the research findings indicating a negative correlation between profitability and debt-to-equity ratio are supported. According to research by Arista and Asohar (2012) and Octary (2016), the debt-to-equity ratio has a detrimental impact on profitability. These findings are consistent with their findings.

Environmental performance factors positively impact profitability. They consider that businesses with high PROPER environmental performance values will see increased profitability. It results from the community's and stakeholders' perceptions of the expected outcomes. As a result, PROPER's environmental performance can draw in investors for the business. However, the business may use this capital infusion to fund production or operational initiatives to boost earnings.

Variables related to environmental costs impact profitability. Businesses with high environmental cost values will see an increase in profitability. It is because while environmental costs may have an immediate negative effect on profits or a negative impact on the company's profitability, the long-term benefits will only become apparent. In addition, the company's environmental expenses are typically tacked onto the cost of the product.
Prices for the company's products will go up if its environmental costs are significant enough. A pricey product will undoubtedly decrease the value that customers place on purchasing it, ultimately lowering the business's profitability.

Environmental disclosure factors positively impact profitability. It occurs because the business has yet to fully disclose environmental information as required by the relevant regulations, or it could be argued that the business only discloses minimal information about the Environment or only presents positive information to maintain a positive public image.

The debt-to-equity ratio variable was shown to hurt profitability based on the findings of testing the fourth hypothesis because businesses with low debt-to-equity ratios will be more profitable. Accordingly, the higher the percentage of debt utilized in a capital structure, the lower the profit margin for the company since higher debt entails higher interest rates, which lower earnings.

The following are suggestions that researchers can make from this research's analysis and testing results. For academics, it can be used to dig deeper into the measurement of each research variable to strengthen existing theories, both for teaching materials and further research.

For future researchers, it can be used to compare the results of previous research. Future researchers can also add research periods, methods, other testing tools and software, samples, and other factors influencing profitability.

Investing decisions in companies on the SRI-Kehati index listed on the Indonesia Stock Exchange can be based on the research findings that investors utilize. Evaluating company portfolios based on environmental performance values, environmental costs, environmental disclosure, and the debt-to-equity ratio (DER) can offer investors valuable insights into risk management and investment decision-making. However, technical analysis and business fundamentals remain essential when making investment decisions. It is intended for use by company managers as a guide so that those who have yet to disclose environmental information can do so in the future. For those who have, it can serve as evidence of the business’s environmental responsibility by providing more thorough and specific disclosures.

REFERENCES


