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Rezza Arlinda Sarwendhi, Agustina Ratna Dwiati, Riski Aprilia Nita, Gyzza Febita

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Revisiting determinants of financial performance: The roles of environmental performance, environmental costs, and environmental disclosure

Rezza Arlinda Sarwendhi*, Agustina Ratna Dwiati, Riski Aprilia Nita, Gyzza Febita

Faculty of Economi Universitas Hayam Wuruk Perbanas, Jalan Wonorejo Utara Nomor 16, Surabaya Jawa Timur, 71105, Indonesia
*e-mail: rezza.arlinda@perbanas.ac.id

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ABSTRACT

This study seeks to analyze the impact of environmental performance, environmental costs, and environmental disclosure on the financial performance of consumer cyclical companies. The sample companies selected are cyclical companies with public status (Tbk) between 2019 and 2023. Sample selection was performed using the purposive method, and the final sample comprised 16 companies with 67 observations after outlier removal. The PROPER rating is used as a proxy to assess environmental performance, environmental costs are assessed through CSR expenditure disclosures in annual reports, and environmental disclosure is evaluated using GRI-G4 indicators. The analytical techniques employed included descriptive statistics and classical assumption tests. In addition, multiple regression models were used, and SPSS was used for hypothesis testing. Testing revealed that environmental performance negatively affects financial performance. This indicates that efforts to improve environmental performance require substantial costs, potentially reducing profitability. Meanwhile, environmental costs have no significant effect on financial performance, suggesting that increased CSR spending does not directly enhance profitability. Conversely, environmental disclosure positively impacts financial performance, implying that transparent reporting of environmental activities enhances public trust and investor perception. Some limitations of this study were the small number of companies used as samples because only a few companies participated in the PROPER rating or disclosed sustainability reports, and the need to remove outliers. Further research is expected to increase the number of samples, include additional independent variables, and examine other industry sectors to obtain more comprehensive insights.

Keywords: Environmental performance; environmental costs; environmental disclosure

1. INTRODUCTION

Company performance reflects its financial condition, which is shaped by management decisions. Financial performance is a multifaceted concept that involves assessing how efficiently a company utilizes its capital and manages its operations. Meanwhile, shareholders invest in businesses with the main objective of enhancing their prosperity. Thus, any change in prosperity serves as an indicator of variations in shareholder welfare resulting from investments over a given period. Financial performance can be evaluated using financial ratios derived from financial statements or data related to stock market prices.

Financial performance is a snapshot of a company's financial condition, analyzed using financial analysis tools. This allows for the assessment of a company's financial condition, reflecting its performance over a specific period (Faisal et al., 2017). Financial performance can be assessed using specific metrics and benchmarks. The following phenomenon occurs in the consumer cyclical sector regarding financial performance.

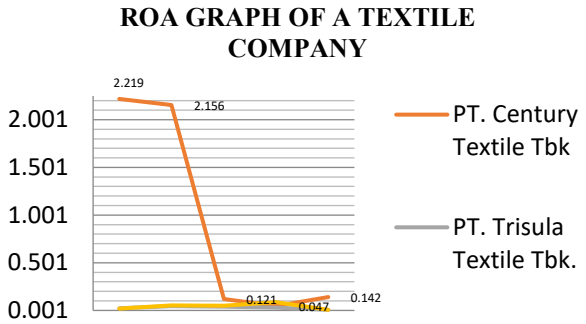

Figure 1. ROA Graph of Textile Company

Figure 1 illustrates the phenomenon occurring in the consumer cyclicals sector. The graph depicts representatives of several companies in the sector that have implemented environmental performance, environmental costs, and social responsibility practices that appear to influence profitability. Previous studies have reported inconsistent results. Research conducted by Ladyve et al. (2020) explain how environmental performance significantly impacts financial performance, while Kurnia et al. (2024) report that environmental performance has no effect on financial performance. Lestari (2023) states that environmental costs impact financial performance, while Siregar et al. (2019) report that environmental costs do not. Alfawaz and Fathah (2022) suggest that when companies share information about their corporate social responsibility, it can significantly impact their financial results. However, Radiman (2019) presents a contrasting view, indicating that disseminating this type of data has no consequence on a corporation's monetary outcomes. Because of this difference in results, it is important to conduct new research to examine how a company's environmental performance, costs related to the environment, and how much they share about their environmental efforts might influence their financial performance.

Legitimacy theory, rooted in the idea of a social agreement, posits that each organization must demonstrate to the community that its operations and achievements are consistent with and supportive of the aspirations of society (Aruan et al., 2021). Companies that cannot meet stakeholder expectations will become a concern for the company in terms of society and the social environment. This indicates that the company has not yet been legitimized. The connection between costs related to the environment, environmental disclosure, and financial performance based on legitimacy theory lies in the effort to understand how companies disclose environmental information as a means of gaining public acceptance. When a company's value system is not aligned with that of the community, it risks losing its legitimacy, which in turn can endanger the company's long-term sustainability. Legitimacy theory shows how a company's environmental performance, environmental costs, and how much it shares about its environment impact its financial results. This ensures that these factors are perceived as acceptable by the public. Furthermore, companies utilize their annual reports to demonstrate their commitment to environmental responsibility, fostering public trust and acceptance.

This study examines how environmental performance, environmental costs, and CSR disclosure affect a company's financial results. What makes this study different from past research is the choice of

variables. Earlier studies used environmental performance, environmental costs, and company size as the main factors, but this study uses environmental performance, environmental costs, and environmental disclosure. In addition, the way we analyzed the data was different. Previously, people used simple linear regression, path analysis, and the Sobel test; however, in this study, we used multiple linear regression, descriptive statistics, and checks for classical assumptions. We also performed F-tests and t-tests and examined the coefficient of determination, which is called R-squared.

Environmental performance reflects the outcome of a company's efforts and strategies to promote environmental friendliness. Financial performance is positively and significantly associated with environmental proactiveness and environmental performance, but does not exhibit a significant link with environmental management. The increase in company profits is a result of the influence of society, which is increasingly enthusiastic about companies that prioritize environmental management, as it proves that the company received a gold rating in the PROPER program, indicating that the company has excellence in its environment. The company benefits from consumers purchasing its offerings and turning into dedicated patrons, which, in the end, can make the company's earnings higher. Consequently, superior environmental practices lead to enhanced corporate results. This could be a sign that the correlation between a company's environmental efforts and monetary achievements aligns with assessments at the industry level, guaranteeing they function within the bounds of local standards and rules, consistent with the legitimacy theory, thus validating at the company's operations. Studies by Ladyve et al. (2020) found that how well a company takes care of the environment resulted on a big outcome on its financial results.

H1: Environmental performance has a significant impact on financial performance

Environmental costs refer to expenses arising when environmental quality falls below established standards. An increase in these costs indicates that the company allocates more funds, which can serve as a long-term investment and ultimately enhance financial performance. This study measures the costs of the environment through expenses related to CSR activities, which are then compared to company profits. Hence, the greater the environmental costs, the more funds are devoted to CSR initiatives— these expenses can be seen as smart investments that draw public interest, build up the company's image, and lead to better financial results. This aligns with legitimacy theory, which emphasizes that companies operate within the boundaries of societal norms and regulations. As the results of Lestari (2023), costs related to environment have a big outcome on how well a company's finances are doing.

H2: Environmental costs have a significant impact on financial performance

Environtmental disclosure consists of information regarding a company's past, present, and planned environmental management activities. Environmental disclosure is assessed using a scoring method, where a score of one is given if the information is disclosed and zero if it is not. The measurement involves a checklist of disclosure items, which are then compared against the content presented in the annual report that the company published. By means of Global Reporting Initiative (GRI) indicators obtained from sustainability report that already published before, it will show about how the company prioritizes its environmental management because a good assessment is a significant advantage for the company. This can provide more competitive advantages because the public as consumers expect environmentally friendly products or services. Therefore, as company profits increase, the company's performance will also improve, resulting in a positive impression from network and environmental around it, thus maintaining the company's position as a superior company in environmental management. When a company discloses its environmental efforts, it can enhance perceptions of its financial performance and influence the reception of its products. Quantitative disclosure of environmental performance signals to the public that the company is committed to environmental sustainability, aligning with the principles of legitimacy theory. As per the research results of Alfawaz & Fathah (2022), environmental disclosure has an impact on financial performance.

H3: Environmental disclosure has a significant impact on financial performance

See Figure 2 for detail.

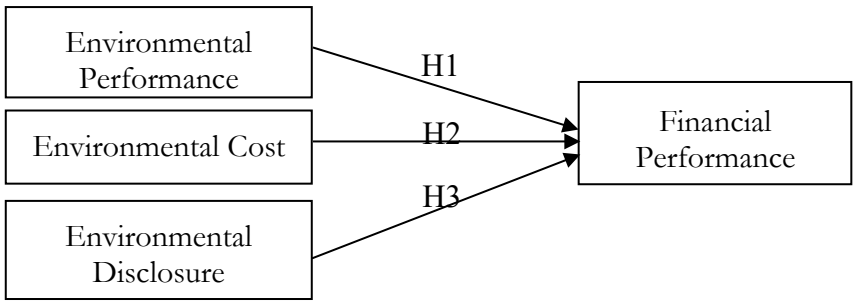

Figure 2. Research Model

2. METHOD

The information employed in this research is in the form of existing data, namely the yearly financial statements from businesses categorized as non-essential consumer goods (or consumer cyclical firms). These companies are all publicly traded on Indonesian stock market called IDX, and the data spans a timeframe from 2019 until 2023. The data were collected using a documentation method, and the sampling was conducted through purposive sampling. There were 73 non-primary consumer goods companies (consumer cyclical) that did not participate in the PROPER program in 2019 until 2023. A combined total of 73 companies did not satisfy the sample criteria, so only 16 companies were included in the final sample for the years 2019 to 2023. The breakdown of how the sample was chosen is shown in Table 1 below:

Table 1. Research Sample of Non-Primary Consumer Goods Companies

NO	DESCRIPTION						Total
		2019	2020	2021	2022	2023	
1	Listed companies must publish their financial statements and annual reports on the IDX during 2019-2023	89	89	89	89	89	**445**
2	Companies that are not involved in the PROPER program	(73)	(73)	(73)	(73)	(73)	**365**
3	TOTAL SAMPEL	16	16	16	16	16	**80**
4	Outlier Data						**(13)**
	Total Observation Data						**67**

Source: Processed data, 2023

Financial performance shows how well a company is doing financially and how healthy it is during a certain time period (Radiman, 2019). Checking how well a company is doing financially is very important for managing and assessing its overall performance. It also helps leaders make better decisions and plan for the future (Oktaviyah, 2024). The profitability ratio used is the ROA ratio, as described by Ladyve et al. (2020), which measures this ratio as follows:

ROA = Net Income / Total assets.

The performance of environment is about how a company deals with the surrounding area around it. It includes how it uses resources, the effect of its operations on the environment, the impact of its products and services on nature, the steps it takes to process and recycle products, and how well it follows environmental rules (Rosmanidar et al., 2024). The measurement used fot environmental performance is PROPER program report according to Rosmanidar et al. (2024) by providing a proxy rating score between 5-1. The rating itself is categorized into different color-coded levels, which are: Gold= 5 points; Green = 4 points; Blue = 3 points; Red = 2 points; Black = 1 point

Environmental costs are expenses borne by a company as part of its responsibility toward its stakeholders, particularly the surrounding community (Ningsih et al., 2022). These environmental costs are measured using the nominal environmental costs already included in each company's sustainability report or annual report (Rahayudi & Apriwandi, 2023).

Enviromental cost: Cost CSR

Environmental disclosure refers to the presentation of information concerning environmental matters in a company's annual report. The measurement used for environmental disclosure is the GRI (Husnaini et al., 2024).

This study goes through several testing steps. First, all the data descriptive are used to give a summary of the data by looking at things like the average, how spread out the numbers are, the highest and lowest values. Before doing the multiple linear regression analysis, it's important to check if some basic assumptions about regression are met. One of these checks is the normality test, which checks if the errors in the regression model are normally distributed. This is carried out using the KolmogorovSmirnov formula. Data is said to be normally distributed if the significance value exceeds 5%. However, if the data tested is less than 5%, the data isn't normally distributed. Another important thing to check is multicollinearity, which finds out if the independent variables in the model are too closely related to each other. This is checked using the Variance Inflation Factor (VIF) and tolerance values. If the VIF is less than 10 and the tolerance is more than 0.01, there is no multicollinearity. However, if the VIF is higher than 10 and the tolerance is lower than 0.01, multicollinearity is present. The heteroscedasticity test checks if the spread of errors stays the same across all observations. The Glejser test checks for heteroscedasticity by looking at the absolute values of the residuals compared to the independent variables. If the significance level is more than 0.05, it shows there's no heteroscedasticity, but if it's less than 0.05, that means heteroscedasticity is present. The autocorrelation test checks whether the errors in one time period are related to the errors in the previous time period. The regression method used is linear regression because it considers several different factors that could influence the main result. This technique helps find out how strong and in what direction each of these factors influences the main result. The study uses multiple linear regression to check how environmental performance, environmental costs, and environmental disclosure impact financial performance. To make sure the results are reliable, the study also uses F-test, t-test, and R squared to check if the model is significant and how well it explains the data.

3. RESULT AND DISCUSSION

3.1. Result

3.1.1. Test for Descriptive

Descriptive statistical tests were conducted to provide a data overview in the form of average values (mean), standard deviation, maximum values, and minimum values. Descriptive statistical tests were used for independent variables including environmental performance, environmental costs, and environmental disclosure for the 2019-2023 period. The table of descriptive statistical values for the research variables is as follows:

Table 2. Data Descriptive Overview

	N	Min	Max	Mean	Std. Deviation
ROA	67	0.00071	0.87615	0.0673182	0.138627885
Environmental Performance	67	2.00	3.00	2.8182	0.38865
Environmental Costs	67	0.00	5611000000	14831148692	1647934730
CSR Disclosure	67	0.00	0.6813	0.1359	0.17777
Valid N	**67**				

Source: SPSS Output Results, 2023

Table 2 shows that financial performance is complicated because it depends on how well the company uses its money and how efficiently it runs its operations. This financial performance is a dependent variable measured using ROA, which can be seen from the company's financial statements from 20192023, with a minimum value of 0.00071 owned by PT. Asia Pacific Fibers Tbk (POLY) in 2023. And for the maximum value of 0.87615. The average value (mean) of this financial performance is 0.673182 and the standard deviation value is 0.1386278. The average value greater than the standard deviation value indicates that the financial performance variable is homogeneous or has a good distribution and has low data variation. Performance as an independent variable comes from the PROPER report released by the Ministry of Environment between 2019 and 2023. Table 4.3 shows that the lowest environmental performance score is 2, and this score is shared by a few companies, including Dharma Polimetal Tbk (DRMA) and Indo Kordsa Tbk (BRAM). The total percentage of companies with a value of 2, which indicates a red color in PROPER for the 2019-2023 period, reached 23.75%. The average value (mean) is 2.8182 and the standard deviation value is 0.38865. The average value is greater than the standard deviation indicates that the environmental performance variables are homogeneous or have a good distribution and have low data variation.

Based on Table 2, environmental costs are costs arising from the quality of an environment that has not met standards. Environmental costs as an independent variable by looking at the presence or absence of CSR cost disclosure in the company's annual report shows a minimum value of 0 or does not disclose CSR costs in its annual report. In 2019, the companies that did not report their CSR costs were Asia Pacific Fibers Tbk (POLY) and Dharma Polimetal Tbk (DRMA). In 2019 and 2020, Century Textile Industry Tbk (CNTX) also did not include CSR costs in its annual report. The highest value mentioned was 5,611,000,000. The average environmental cost is 1,483,118,692, and the standard deviation is 1,647,934,730. Since the average is lower than the standard deviation, this shows that the environmental cost varies a lot and is not evenly spread out. CSR disclosure refers to the information a company shares about its environmental efforts in its annual report. Environmental disclosure is treated as an independent variable, and it is usually found in the company's sustainability report. Disclosure is guided by the GRI-G4 disclosure which consists of 91 indicators. The maximum value of 0.6813 owned by Indo Kordsa Tbk (BRAM) indicates that the company can disclose its environmental disclosure well and has been proven in the company's sustainability report (BRAM). The typical value registers at 0.1359, while the measure of dispersion from this average is noted as 0.177777. Considering the average figure is of a lesser magnitude than the standard deviation, it becomes evident that the corporate social responsibility disclosure variable lacks uniformity and displays considerable fluctuation across the dataset.

3.1.2. Classical Assumption Test

3.1.2.1. Normality Test

This test showed whether the gathered data aligns with a typical distribution pattern or originates from a normally distributed group. According to the Kolmogorov-Smirnov test, data is assumed to follow a normal distribution pattern when the significance value reaches a minimum of 0.05. The results from the Kolmogorov-Smirnov test before removing any outliers show a significance level of 0.000, which is below 0.05. This means the data do not follow a normal distribution. But after outlier, the significance level isi 0.078, which is not below the 0.05 significance level. This shows that the processed data follow a normal distribution. Therefore, the normality assumption is satisfied, and the data can be used for more analysis to look at how environmental performance, environmental costs, and environmental disclosure affect things.

3.1.2.2. Multicollinearity Test

The multicollinearity test looks for any connection between the independent variables in the regression model.

Table 3. Test for Multicollinearity

		Unstandardized Residual
N		80
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.22942587
Most Extreme Differences	Absolute	.357
	Positive	.357
	Negative	-.248
Test Statistic		.357
Asymp. Sig. (2-tailed)		.000[c]

Source: SPSS Output Results, 2023

From the test as seen in Table 3, it is known that with financial performance as the dependent variable, all independent variables consisting of environmental performance, environmental costs, and environmental disclosure have a tolerance value of >0.10 and a VIF value of <10, which means that the research model is free from multicollinearity problems.

3.1.2.3. Heteroscedasticity Test

The test for heteroscedasticity checks if the variance of the residuals is consistent across all data points in the regression model.

Table 4. Heteroscedasticity Test

		Unstandardized Residual
N		67
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.03022424
Most Extreme Differences	Absolute	.103
	Positive	.103
	Negative	-.073
Test Statistic		.103
Asymp. Sig. (2-tailed)		.078[c]

Source: SPSS Output Results, 2023

Table 4 above shows that the research model used is free from heteroscedasticity problems, because all independent variables, namely Environmental Performance, Environmental Costs and CSR Disclosure, have a significance value above 0.05.

Autocorrelation Test

The autocorrelation test checks if the assumption that there is no correlation between residuals is true. It looks for a pattern where the error terms from one data point are related to the error terms from another data point in the regression model. The Asymp. Sig. (2-tailed) value is 0.539, which is more than 0.05. This shows there is no sign of autocorrelation in the regression model, so we can conclude there are no problems with it.

3.1.3. Hypothesis Test

The following are some statistical test results.

Table 5. F test

Model		Sum of Squares	Df		Mean Square	F	Sig.
1	Regression	.002		3	.001	6.319	.003[b]
	Residual	.002		23	.000		
	Total	.004		26			

Source: SPSS Output Results, 2023

Based on Table 5, it can be seen that the F test value is 6.319 with a significance value of 0.003 < 0.05. This means that the independent variables, namely environmental performance, environmental costs,

and CSR Disclosure, are able to explain their influence on Financial Performance, and the regression equation obtained is reliable so that it can be continued for testing, the regression model fits.

3.1.3.1. R Square test

This test is designed to see how well the research model can explain changes in the dependent variable.

Table 6. R Square test

Model	R	R Square	Adjusted R Square
1	.672[a]	.452	.380

Source: SPSS Output Results, 2023

As shown in Table 6, the adjusted R square amounts to 0.380, equivalent to 38%. This indicates that the independent variable accounts for 38% of the changes observed in the dependent variable within this particular research. The remaining 62% of the changes are a result of elements not accounted for within the regression model.

3.1.3.2. T-Test

Table 7 shows that the environmental performance variable (X1) has a sig. 0.002 <0.05, indicating that X1 significantly influences Y. It shows that the environmental cost variable (X2) has a sig. 0.369 >0.05, indicating that X2 does not significantly influence Y. Table 7 shows that the CSR disclosure variable (X3) has a sig. 0.046 <0.05, indicating that X3 significantly influences Y.

Table 7. T-test

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	.033	.034		.948	.353
Environmental Performance (X1)	-.047	.013	-.553	-3.561	.002
Environmental Costs (X2)	.001	.001	.152	.916	.369
CSR Disclosure (X3)	.012	.005	.353	2.112	.046

Source: SPSS Output Results, 2023

3.2. Hypothesis

Hypothesis testing was conducted by examining the coefficients in the SPSS calculations to know the result of the hypothesized hypothesis. The following result is shown in Table 8:

Table 8. Hypothesis

No	Hypothesis	Result
1	Environmental Performance has a negative effect on Financial Performance	Accepted
2	Environmental Cost does not have a positive effect on Financial Performance	Rejected
3	Environmental Disclosure has a positive effect on Financial Performance	Accepted

3.3. RESULT AND DISCUSSION

3.3.1. The Influence of Environmental Performance on Financial Performance

Environmental performance is the result of a company's strategy to create a green environment. Environmental performance is measured through the PROPER system, an environmental assessment program implemented by the Ministry of Environment.

The first idea is that how well a company takes care of the environment affects its financial results. From the test, this idea is supported because the level of statistical significance is 0.002, which is less than 0.05. This shows that environmental performance does affect financial performance. When a company does a better job in environmental matters, it usually has to spend more money to keep up with those efforts, which can lower its financial results. Companies are more likely to focus on environmental performance if it helps them improve their financial outcomes. However, companies face costs related to environmental performance, which are used to repair environmental damage and compensate communities for any losses, as the company has already spent money to prevent environmental harm before it occurs. These results match the idea of legitimacy theory, which says that when a company does well in environmental matters, it shows it's following the rules and expectations of the community, which makes the company more accepted. These findings also agree with the work of Ladyve et al. (2020), who discovered that how well a company performs environmentally has a big effect on its financial results.

3.3.2. The Impact of Environmental Costs on Financial Performance

Environmental costs are costs incurred due to environmental quality that no longer meets standards. The costs used to measure environmental costs are those incurred for CSR activities. When the environmental costs are higher, a company spends more on CSR, but this spending can be seen as an investment for the future. Another concept suggests that ecological expenses have no bearing on monetary outcomes. However, the experimental findings demonstrate the inaccuracy of this concept. The importance assessment registers at 0.369, surpassing the alpha threshold of 0.05. This indicates that environmental expenditures exert no noteworthy influence on financial achievements. This indicates that increasing funds spent on CSR activities does not increase company profits. Additionally, the environmental costs that companies face are typically included in the prices of their products. So, if these environmental costs are high, it is probable that the amount consumers pay for the business's offerings will also see an increase. Naturally, increasingly expensive product prices can burden the community, ultimately resulting in decreased income. This contradicts legitimacy theory, which states that environmental costs should ensure that operations are within the norms and regulations applicable in society, thus legitimizing the company. These research outcome correspond with the work of Siregar et al. (2019), which found that environmental costs do not significantly impact financial situation.

3.3.3. The Influence of Environmental Disclosure on Financial Performance

Environmental information disclosure is a set of record about a company's actions related to environment from the past, present, and future. This is measured through a scoring system called disclose-scoring. The score is determined by analyzing financial statements, giving one point if the information is disclosed and zero if it is not. The third idea is that sharing information about the environment affects how well a company does financially. The test results show that this idea is supported, with a value level of significance is 0.046, which is less than the limit of 0.05. This means that sharing environmental information really does affect financial performance. It shows that when a company talks about its care for the environment, it helps people understand how well the company is doing financially and can also influence the products they make. Furthermore, the Global Reporting Index (GRI) includes not only environmental indicators but also economic, social, resource, and other indicators that are needed as a whole in assessing a company. These results align with legitimacy theory, which states that if a company discloses its environmental performance in detail and comprehensively to the public, the public will perceive the company as concerned about environmental sustainability, especially for the community. Companies that provide greater environmental disclosure can increase public trust, which expects products

to be environmentally friendly. These research findings align with research by Alfawaz & Fathah (2022), which states that environmental disclosure impacts financial performance.

4. CONCLUSION

This study reveals that environmental performance significantly affects financial performance, confirming that it plays a role in shaping financial outcomes. However, as a company enhances its environmental performance, the associated increase in costs may result in a decline in situation related to financial. Companies will carry out performance about environment if environmental performance can improve the financial situation. However, with environmental achievement, the company incurs costs used to repair environmental damage and community losses because the company has incurred costs to prevent environmental damage before it has a negative impact. Environmental costs have no positive effect on financial situation. This proves that costs related to environment do not significantly impact financial performance. It shows that higher spending on CSR activities does not necessarily lead to increased profits. Moreover, environmental costs are often passed on to consumers through higher product prices. As a result, if environmental costs are high, product prices tend to rise, which can hurt consumer demand and reduce overall income. Conversely, making corporate social responsibility information public tends to boost a company's bottom line. This implies that by openly communicating a company's dedication to environmental stewardship, stakeholders' views of the company's fiscal standing improvement, potentially leading to favourable outcomes of their offerings. In addition, the Global Reporting Index (GRI) not only contains environmental indicators but also economic, social, resource and other indicators that are needed as a whole in assessing a company

Ethical Approval

Ethical approval was not required for this study

Informed Consent Statement

Not applicable

Authors' Contributions

RAS contributed to conceptualization, research design, data analysis, manuscript writing and instrument development, supervision during data collection, and the review of the theoretical framework. ARD contributed to the statistical analysis, interpretation of the findings, technical validation, contributed to literature review. RAN and GF contributed to data management, and proofreading of the final manuscript. All authors discussed the results collaboratively and approved the final version for publication.

Disclosure Statement

No potential conflict of interest was reported by the author(s).

Data Availability Statement

The data presented in this study are available on request from the corresponding author due to privacy reasons.

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Notes on Contributors

Rezza Arlinda Sarwendhi
Rezza Arlinda Sarwendhi is affiliated with Universitas Hayam Wuruk Perbanas, Surabaya.

Agustina Ratna Dwiati
Agustina Ratna Dwiati is affiliated with Universitas Hayam Wuruk Perbanas, Surabaya.

Riski Aprilia Nita
Riski Aprilia Nita is affiliated with Universitas Hayam Wuruk Perbanas, Surabaya.

Gyzza Febita
Gyzza Febita is affiliated with Universitas Hayam Wuruk Perbanas, Surabaya.

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