IFRS S1, Green Accounting, and Environmental Performance: Keys to Sustainable Financial Performance in the Indonesian Industrial Sector

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ABSTRACT

This study analyzes the influence of IFRS S1, Green Accounting, and Environmental Performance on the financial performance of industrial companies in Indonesia. Using panel data fro 22 companies during 2022-2024 and the Fixed Effect Model (FEM) regression method, the study found that IFRS S1 has a significant positive effect at the 10% level, indicating that increased sustainability transparency is beginning to be appreciated by investors. Conversely, Green Accounting has a significant negative effect because the internalization of environmental costs continues to depress short term profitability. Environmental Performance (PROPER) has no significant effect, indicating that the benefits of environmental compliance have not yet been reflected in financial performance. However, all three variables simultaneously have a significant effect on financial performance, indicating that sustainability practices have a stronger impact when integrated comprehensively. These findings emphasize the importance of implementing sustainability standards and environmental management in strengthening companies sustainable financial performance.

Keywords: *IFRS S1, Green Accounting, Environmental Performance, Financial Performance, Industry Sector.*

INTRODUCTION

Global accounting has entered the era of sustainability reporting with the publication of the IFRS S1 standard by the International Sustainability Standards Board (ISSB), which establishes general requirements for the disclosure of non-financial information related to environmebtal, social, and governance issues (Emmanuel, 2022). This standard is a significant milestone because it promotes transparency and accountability for companies regarding their sustainability impacts, while integrating sustainability-related risks and opportunities into investor decisions (IAI, 2023).

The industrial sector in Indonesia faces significant environmental challenges, such as high water consumption, chemical waste, and carbon emissions, which have the potential to create significant external burdens and reputational risks. Therefore, the implementation of green accounting is highly relevant. Green accounting focuses on recognizing, measuring, and reporting environmental costs and benefits arising from company activities (Reska, 2022). This approach can help internalize environmental costs, improve operational efficiency, and strengthen the company's legitimacy in the eyes of stakeholders.

Environmental perforance, often measured through indicators such as the PROPER (Program Penilaian Peringkat Kinerja Perusahaan dalam Pengelolaan Lingkungan) rating, reflects how well companies manage their ecological impact. The combination of green accounting and environmental performance can be key to improving a company's sustainable financial performance, as companies that

manage environmental aspects well can achieve efficiencies, reduce risks, and attract investors increasingly concerned about ESG (No et al., 2025).

The selection of IFRS S1 in this study is based on the fact that Indonesia is entering the initial phase of adopting international sustainability reporting standards set by the IFRS Foundation 2023. Although the official implementation under the coordination of the Indonesia Institute of Accountants (IAI) is planned to take effect in 2027, a number of companies in Indonesia, especially those committed to transparency and sustainability practices, have voluntarily begun adopting the principles and guidelines of IFRS S1 in preparing their sustainability reports since 2023. This condition indicates a shift in the financial reporting paradigm towards more comprehensive sustainability reporting, so that IFRS S1 becomes relevant to study in the context of its impact on financial performance and corporate legitimacy (IAI, 2024).

However, empirical findings regarding this relationship remain inconsistent. (Trisakti et al., 2022) and (Adikasiwi et al., 2024) found that green accounting and environmental performance, supporting legitimacy and stakeholder theories. Conversely, (Indrayani & Baining, 2024) and (Sugiarto, 2024) reported insignificant impacts, arguing that many companies adopt green accounting symbolically, without full integration into strategic operations. (Jurnal et al., 2024) indicated that although green accounting has potential, its impact is not visible when environmental policies are not well implemented. This inconsistency forms a research gap, indicating that the relationship between environmental initiatives and financial performance is not empirically conclusive, especially in environmentally intensive sectors.

This gap also appears in practice. Despite the Indonesian government's push for sustainability reporting, the Indonesia Stock Exchange. (IDX, 2024) reported that less than 30% of listed textile companies consistently publish sustainability reports that include environmental cost disclosure. Many still treat environmental spending as a compliance cost, rather than an investment in long term value creation. This disparity between regulatory expectations and actual corporate practices reflects a gap in the implementation of environmental accountability.

This title emphasize the integration of IFRS S1 as a new international standard with the concepts of Green Accounting and Environmental Performance. This study provides empirical evidence on how environmental responsibility can coexist with profitability, particularly in industrial sectors with environemntal impacts and strategic economic importance.

THEORETICAL BACKGROUND
Legitimacy Theory

Legitimacy Theory asserts that a company's sustainability depends on the extent to which its activities align with prevailing values, norms, and social expectations (Suchman, 1995). In the context of sustainability, legitimacy can be achieved through information transparency and responsibility towards social and environmental aspects.

(Prasetyowati et al., 2024) explained that the implementation of green acconting serves as a legitimacy measure because it reflects a company's commitment to managing environmental impacts through the recognition and reporting of environmentally friendly costs and activities in financial statements. This aligns with the provisions of IFRS S1 (IFRS Foundation, 2024), which encourages transparent disclosure of sustainability information as a form of accountability to the public and investors.

According to (Trisakti et al., 2022) green accounting and sustainability reporting contribute to building a positive reputation and strengthening corporate legitimacy, particulary in industries with high environmental risks such as textiles. Meanwhile, (Jurnal et al., 2024) added that consistency in sustainability reporting helps companies maintain social support and contributes to improved long term financial performance.

Thus, legitimacy theory is used in this study to explain how the implementation of IFRS S1 and Green Accounting practices act as strategic mechanisms for textile companies in gaining social support, strengthening repulation, and improving sustainable financial performance (Falih & Ifada, 2025).

Stakeholder Theory

Stakeholder Theory (Freeman, 1984) emphasizes that a company's success depends heavily on its ability to meet the needs an expectations of various stakeholders, such as the government, investors, customers, employees, and the community

According to (Adikasiwi et al., 2024) the implementation of green accounting and sustainability disclosures serve as mechanisms to provide transparency and accountability to stakeholders, particularly regaring environmental impacts. Companies that address stakeholder interest will gain a higher level of trust, strengthen their reputation, and drive improved financial performance.

furthermore, (Trisakti et al., 2022) emphasize that good environmental performance reflects a company's responsibility to stakeholders and positively impacts profitability and corporate image. In the context of implementing IFRS S1, this standard emphasizes the role of Environmental, Social, and Governance (ESG) reporting as the primary communication tool between companies and stakeholders regaring financially relevant sustainability issues (IFRS Foundation, 2024).

Sustainability Theory

Sustainability theory emphasize the importance of maintaining a balance between three main dimensions : economic, social, and environmental. As explained in Elkington (1998). Triple Bottom Line concept. Companies are not only focused on achieving profits but are also expected to consider human well being (People) and environmental sustainability (Planet).

According to (Indrayani & Baining, 2024), green accounting functions as an accounting instrument that enables companies to systematically identify, measure, and report environmental impacts in their financial statements. Meanwhile, (Jurnal et al., 2024) state that implementing green accounting helps copanies achieve long term susyainability by integrating environmental costs and considerations into the strategic decision making process.

In relation IFRS S1, this standard requires companies to disclosure information regarding sustainability risks and opportunities that have a material impact on the company's economic value. This provision reinforces the concept of sustainability integration, namely the combination of financial and non financial reporting to create more comprehensive transparency and accountability

Thus, sustainability theory explains that the integration of IFRS S1, Green Accounting, and Environmental Performance is a key strategy for achieving sustainable financial performance. All there are interconnected as a unified but also on ensuring long term operational sustainability and social acceptance (Falih & Ifada, 2025).

Hypothesis

The impelementation of Green Accounting helps companies systematicallyidentify, measure, and report environmental costs, thereby driving operational efficiency, eanching reputation, and report environmental costs, thereby driving operational efficiency, enchancing reputation, and gaining public trust (Adikasiwi et al., 2024), and (Prasetyowati et al., 2024). The more optimal the implementation of Green Accounting, the greater the opportunity for companies to improves their financial performnace through more effective management of resources and environmental (Falih & Ifada, 2025).

Good environmental perfomance reflects a company's commitment to environmental sustainability and compliance with applicable regulations. Companies with a high PROPER rating typically have low legal risk, a positive image, and strong investor confidence (No et al., 2025). Therefore, improved

environmental performance is expected to positively impact profitability and company (Trisakti et al., 2022)

The implementation of IFRS S1 serves as a commitment to transparency and sustainability practices. Companies have voluntarily adopted IFRS S1 principles and guidelines in preparing their sustainability reports since 2023. This standard encourages companies to be more accountable and attractive to investors by emphasizing the link between non financial aspects and long term economic (IAI, 2023).

Based on the theoretical foundation and previous findings, the hypotheses proposed in this study are as follows:

H1: Green Accounting has a significant positive effect on Financial Performnace.

H2: Environmental Performance has a significant positive effect on financial Performance

H3:The implementation of IFRS S1 strengthens the influence of Green Accounting and Environmental Performance on Financial Performance.

RESEARCH METHOD

This study uses a quantitative approach with a causal associative type, which aims to empirically test the relationship and influence between variables through numerical (Rachman, 2024). This approach was chosen to determine the extent to which the implementation of IFRS S1, Green Accounting, and environmental performance affect the company's financial performance objectively and measurably. The study population includes industrial sector companies listed on the Indonesia Stock Exchange (IDX) during the period 2022–2024, namely the initial implementation of IFRS (IFRS Foundation, 2023) and the increasing implementation of green accounting practices in the industrial sector. A purposive sampling technique was used to determine the sample, with the criteria being companies that have annual reports, sustainability reports, and PROPER rating data from the Ministry of Environment and Forestry KLHK (2024) during the study period. The type of data used is secondary data, obtained from financial reports, sustainability reports, and PROPER documents. The dependent variable, namely financial performance, is measured using the ROA (Studi et al., 2025) and (Wibowo, 2025). Meanwhile, the independent variables consist of the implementation of IFRS S1, Green Accounting, and environmental performance represented by the PROPER rating (KLHK, 2024). Data analysis was conducted using panel data regression with the help of EViews 12 software, because this method can combine the characteristics of cross-company data (cross-section) and time data (time-series), so that the estimation results are more accurate and (Dengan & Eviews, n.d.), and (Wibowo, 2025). The analysis procedure includes descriptive analysis, classical assumption tests, Chow tests, Hausman tests, Lagrange Multiplier tests, as well as t-tests, F-tests, and coefficients of determination (R^2) to assess the influence between research variables.

Figure and Table

To provide an initial overview of the characteristics of the research data, descriptive statistical analysis was performed on all variables used: IFRS S1, Green Accounting (GA), Environmental Performance (PROPER), and Return on Assets (ROA). Descriptive statistics were calculated based on 66 observations from 22 companies during the 2022–2024 period.

The following table shows the mean, standard deviation, minimum, maximum, and first quartile (Q1), median, and third quartile (Q3):

Table 1. Statistical Description

Variabel	Mean	Std. Dev	Min	Q1	Median	Q3	Max
Tahun	2023.00	0.8228	2022	2022	2023	2024	2024
IFRS_S1	1.5303	0.5876	0	1	2	2	3
GA	3.5455	1.2426	1	3	4	4	5
PROPER	0.7273	1.0604	0	0	0	2	3
ROA	0.1576	1.0405	−1.7701	−0.0094	0.0376	0.0775	8.0076

Overall, descriptive statistics indicate that companies are beginning to adopt IFRS S1 and Green Accounting, although the depth of implementation varies, indicating that sustainability practices in Indonesia are still in a transitional stage. Conversely, the relatively low PROPER scores indicate that most companies have not fully integrated environmental management into their business strategies, with only a few achieving high environmental performance ratings. Profitability also shows wide variation, reflecting the unstable industry conditions and differences in companies' ability to implement sustainability strategies. This large variation across companies strengthens the use of the Fixed Effects Model (FEM) because this model is able to capture unique internal company characteristics, resulting in more precise estimates. Thus, descriptive statistics not only provide an overview of the data but also support the selection of the panel model used in the study.

RESULTS AND DISCUSSION

The results of the study indicate that IFRS S1 has a positive and significant impact at the 10% level, indicating that improvements in the quality of sustainability disclosure are beginning to be appreciated by investors. This finding is an important starting point because it demonstrates that standardized sustainability reporting not only meets regulatory requirements but also provides economic value for companies. IFRS S1, as a global sustainability reporting standard that requires more comprehensive information presentation, helps reduce information asymmetry between companies and their stakeholders. Increased transparency provides a clearer picture of a company's sustainability risks, opportunities, and strategies, thereby strengthening investor confidence in the company's credibility and strategic direction. Therefore, the adoption of IFRS S1 serves as a positive signal that a company is better prepared to face global reporting demands, has better governance, and demonstrates a long-term commitment to sustainability. These factors together have the potential to improve market perception and create a stronger foundation for improving sustainable financial performance.

In contrast to these findings, the Green Accounting (LGA) variable showed a negative and significant impact on financial performance. This result indicates that environmental costs that companies must internalize through green accounting records remain a burden that depresses short-term profitability. Green accounting practices require companies to recognize previously unrecorded costs, such as waste management costs, maintenance of environmentally friendly facilities, implementation of low-emission technology, and environmental certification processes. In the early stages of implementation, these costs typically increase significantly, impacting ROA, which is sensitive to changes in cost structure. In the context of Indonesian industries characterized by relatively high production costs, such as the textile industry, heavy manufacturing, and the chemical sector, these increased environmental costs directly pressure net income. However, legitimacy and stakeholder theory explain that this type of environmental investment is a long-term economic strategy that can generate indirect benefits, such as improved corporate reputation, public trust, litigation risk mitigation, and stable relationships with regulators. These positive impacts are not directly reflected in short-term financial performance, but can emerge in the long term if the company is able to consistently manage its sustainability strategy. Therefore, the negative impact of green accounting in this study can be understood as a consequence of the initial phase of environmental practice transformation that has not yet fully generated long-term efficiency or value.

(Adikasiwi et al., 2024) On the other hand, environmental performance, as measured by PROPER, did not significantly impact financial performance. This insignificance indicates that achieving a PROPER rating is still not considered a determining factor in corporate profitability. PROPER focuses more on compliance with environmental regulations than on operational efficiency or environmentally-based innovation, which can directly improve financial performance. Furthermore, the Indonesian capital market has not optimally internalized environmental performance information in its investment decision-making process. Domestic investors generally still prioritize short-term financial indicators such as revenue growth and cash flow over sustainability indicators. PROPER's impact on financial performance also tends to be long-term, for example through improved reputation, consumer loyalty, and

reduced operational risk. However, these benefits are not always visible within the relatively short three-year observation period (2022–2024). This also aligns with the literature, which states that some companies only fulfill PROPER symbolically, resulting in an insubstantial impact on profitability.

Overall, the research findings show that sustainability practices in Indonesia are still in a heterogeneous development phase. IFRS S1 is the sustainability aspect with the fastest impact because it is directly linked to disclosure and investor perceptions. Green accounting incurs costs, so its negative effects are immediately apparent. Meanwhile, PROPER has not yet significantly impacted financial performance because its benefits are more long-term. These three variables collectively demonstrate that sustainability will only provide strategic value when comprehensively integrated into reporting, environmental financing, and operational performance, rather than implemented in parts.

CONCLUSION

This study shows that the implementation of IFRS S1, Green Accounting, and Environmental Performance have varying effects on the financial performance of industries in Indonesia. IFRS S1 has a significant positive effect at the 10% confidence level, indicating that the quality of sustainability disclosure is starting to be valued by investors. Conversely, Green Accounting has a significant negative effect because internalized environmental costs continue to depress short-term profitability. Meanwhile, Environmental Performance (PROPER) has no significant effect, indicating that the benefits of environmental compliance are not yet fully reflected in financial performance. However, all three variables are proven to simultaneously influence financial performance, confirming that sustainability has a stronger impact when integrated consistently and comprehensively.

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