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(Research) Article

Earnings Management Moderates the Relationship between Green Accounting and Financial Distress on Financial Performance

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Abstract: Green accounting procedures have been adopted by numerous companies in response to the growing global focus on environmental responsibility. Nonetheless, monetary instability is still a major obstacle that can reduce productivity in Indonesia's manufacturing sector. The purpose of this research is to analyze industrial businesses listed on the Indonesia Stock Exchange from 2019 to 2023 and see how green accounting, financial crisis, and earnings management affect financial performance. The population in this study consists of 68 industrial sector companies, with a sample of 7 companies selected through purposive sampling based on 4 criteria. We used EViews software and Moderated Regression Analysis (MRA) for a quantitative approach. First, financial distress has a significant impact on financial performance. Second, green accounting has a significant positive effect on financial performance. Third, earnings management does not moderate the relationship between financial distress and financial performance. Fourth, earnings management does not moderate the relationship between green accounting and financial performance. With an Adjusted R-Square value of 79.73%, the study model has a high level of explanatory power. It may be used to explain the majority of the variation in financial performance. This shows that the constructed model is applicable and fits the empirical data well. Transparent reporting and real sustainability initiatives are still vital for improving company results, according to these results, as profits management methods do not change the impact of environmental and financial variables, which are important drivers of performance.

Keywords: Earnings Management; Financial Distress; Financial Performance; Green Accounting; Manufacturing Sector.

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1. Introduction

Financial performance reflects the extent to which the way the organization runs its operations and the results it has achieved as a result of those operations. Furthermore, one way to measure a company's success from a financial standpoint is by looking at its performance. By tracking and analyzing this indicator, businesses can assess their performance, plan for the future, and ensure their continued viability. The financial results are the success achieved by a company through various activities used to evaluate the extent to which the company has complied with the provisions in presenting information accurately and appropriately (Rumengan & Alexander, (2019). The financial performance of each company depends on the scope of its business (Angela, 2015). The author chose financial performance as measured by economic value added (EVA), which is derived from the value of shares generated by shareholders, both in increasing and decreasing conditions. EVA can also be used to assess economic profits, which states that wealth is only created when a company includes operations and capital.

As seen in the case of Bakrie Group Issuer, PT Bakrie & Brother Tbk. (BNBR) recorded financial performance with net income in the first half of 2023 amounting to Rp1.96 trillion, a rise of 52.01 percent over the corresponding period last year. BNBR also recorded an operating profit of IDR 133.41 billion, a 383.03% increase year-on-year (yoy) from IDR 27.6 billion in the same period last year. The company said in an official statement that the increase in net income was supported by positive revenue from a number of the company's business units, including PT Bakrie Metal Industies (BMI) Group at Rp1.12 trillion and PT VKTR Teknologi Mobilitas TBK. (VKTR) Group at Rp642.19 billion, PT Bakrie Indo Infrastructure (BIIN) Group at Rp202.86 billion, and PT Bangun Bantala Indonesia (BBI) at Rp1.35 billion.

In addition to operational factors, Both external factors and internal financial circumstances impact a company's bottom line. As stakeholders call for more environmental responsibility, green accounting is becoming a more relevant practice to implement. According to stakeholder theory (Freeman, 1984), companies' bottom lines might benefit by being transparent about their environmental initiatives because it boosts legitimacy and public trust in the company. Several studies have shown that green accounting improves financial performance; one of these is (Pratiwi & Suripto, 2022). But prior research has shown contradictory findings. According to Faizah (2020), Pujiasih (2024), and Refiyani and Fitriyana (2024), green accounting has no statistically significant effect on net profit margin, Tobin's Q, or enterprise value analysis (EVA). Because of this discrepancy, there is a lack of studies examining how green accounting impacts financial performance using different performance proxies.

In addition, financial distress is also a factor that affects financial performance. Financial distress describes a company's potential financial difficulties in meeting its obligations and is often associated with a decline in performance. (Altman, 1968) showed that financial distress can be a predictor of the financial well-being of a business. Financial difficulties have a detrimental influence on company value, according to Monica and Sulfitri (2022), although Syam et al. (2022) indicates that it is considerable. Financial distress significantly impacts corporate value, according to studies Pujiasih (2024), even though green accounting is not significant. These results indicate an empirical gap, as the impact of financial distress is inconsistent across contexts.

On the other hand, earnings management is often suspected of moderating financial performance as it relates to green accounting and financial hardship. Nonetheless, prior research has typically ignored moderating variables in favor of testing the direct influence alone (Faizah, 2020; Pujiasih, 2024; Refiyani & Fitriyana, 2024). Although earnings management does not enhance the connection between green accounting and financial distress on financial performance, this study addresses a methodological gap by investigating its function as a moderating variable.

Given the differences in results (research gap) and methodological limitations of previous studies, By shedding light on the connections between EVA as a proxy, green accounting, financial distress, earnings management, and financial performance, this study adds to the existing theoretical literature. Specifically, business leaders can use this study's findings to inform their decisions pay more attention to environmental accounting practices and internal financial conditions in an effort to improve sustainable financial performance, while also providing relevant information for investors and regulators in assessing the health of the company.

2. Literature Review

Stakeholder theory

Stakeholder theory is a strategy developed by companies to maintain their relationships with stakeholders, including investors, the government, creditors, employees, suppliers, customers, and the community, including the environment. Stakeholder theory asserts that companies have an obligation to consider the interests of various parties every stakeholdershareholders, governments, workers, consumers, vendors, neighborhoods, and the environment in order to achieve sustainability and social legitimacy (Freeman, 1984). In this context, green accounting represents a commitment to external stakeholders, particularly

the community and the environment, by taking environmental costs into account in financial reporting (Green Accounting).

Research by Ahmad et al. (2025) integrates The study demonstrates that GAM mediates the connection between environmental policy and financial performance, drawing on stakeholder theory and the Natural Resource-Based View perspective. This finding confirms that paying attention to environmental stakeholders positively affects company performance (FP). But when a business is in the red, the top brass usually feels the heat to keep the company's financial image intact. Earnings management the manipulation of financial statements through accruals or operations can be used as a moderation strategy to maintain stakeholder confidence (Healy & Wahlen, 1999). On the one hand, this can be seen as a short-term strategic response to ensure stakeholder support. On the other hand, such manipulative practices have the potential to damage the trust and standing of the organization among its constituents.

A study in emerging markets shows that corporate involvement in ESG (Environmental, Social, Governance) activities which include green accounting generally correlates negatively with earnings management practices. Companies that take stakeholder interests into account are less likely to manipulate their finances and more likely to report them honestly, according to stakeholder theory (Velte et al., 2020). However, there are also contrary findings in some contexts, ESG is used as a cover to legitimize financial manipulation a warning that such interventions are risky if transparency is not maintained (Prior et al. 2020)

In conclusion, the framework proposed by the research title " The Impact of Green Accounting and Financial Stress on Financial Performance Is Mitigated by Earnings Management." can be justified theoretically: Stakeholder theory helps explain how green accounting functions as an effort to maintain socio-environmental legitimacy, while earnings management becomes a moderating tool in distress conditions to maintain stakeholder trust. The end result is how financial performance is simultaneously influenced by these three elements: environmental commitment, financial pressure, and reporting practices.

Legitimacy theory

Legitimacy theory emphasizes that companies seek to operate within the norms and values accepted by society to maintain their legitimacy and secure long-term survival. This perspective suggests that firms voluntarily disclose environmental and social information, such as green accounting practices, to demonstrate conformity with societal expectations and reduce legitimacy gaps. In this context, the disclosure of environmental costs is not only a form of accountability but also a strategy to gain public trust and improve financial performance. Accordingly, firms experiencing financial distress may intensify legitimacy-seeking behaviors to signal stability to stakeholders. Therefore, hypotheses in this study can also be grounded in legitimacy theory, as it explains why green accounting and financial distress disclosures are expected to influence financial performance (Suchman, 1995; Deegan, 2019).

Financial Performance

Financial performance is the achievement obtained by a company through various activities, which is used to review whether the company has implemented the provisions in presenting information that is presented properly and correctly (Rumengan & Alexander, 2019)

Green Accounting

The term "Green Accounting" refers to an integrated approach to financial reporting that takes into account both economic and non-economic factors by combining traditional accounting methods with those of social and environmental reporting, namely stakeholder decision-making (Afni et al., 2019).

Financial Distress

Financial distress is a financial problem faced by a company. When a company experiences financial difficulties, it is no longer in the same position but is transitioning to the next stages.

Earnings Management

Earnings management is a practice that will lead to financial reports losing their credibility and potentially influencing decisions that stakeholders rely on based on statistics in unaltered financial reports (Rosyati & Fitriyana, 2023).

Hypothesis Development

The Effect of Green Accounting on Financial Performance

Companies have a responsibility to take into account the needs of all relevant parties, including society and the environment, in accordance with stakeholder theory (Freeman, 1984). The implementation of green accounting reflects environmental responsibility, which is expected to enhance corporate legitimacy and strengthen public trust. Pratiwi & Suripto (2022) found that green accounting positively affects financial performance. However, other studies such as Faizah (2020), Pujiasih (2024), and Refiyani & Fitriyana (2024) reported that green accounting has no significant impact when measured with different proxies. These inconsistencies indicate a research gap. As a result, here is the hypothesis:

The Effect of Financial Distress on Financial Performance

Agency theory explains that financial distress increases the risk of failing to meet obligations, which in turn weakens financial performance. Altman (1968) demonstrated that financial distress could predict a company's financial health. Empirical evidence by Syam et al. (2022) and Pujiasi (2024) showed that financial distress significantly affects firm value, while Monica & Sulfitri (2022) found a negative impact. These contrasting results reveal a research gap in how financial distress influences financial performance. Hence, the hypothesis is formulated as:

H2: Financial Distress is believed to impact Financial Performance significantly.

Earnings Management as a Moderator between Green Accounting and Financial Performance

Although green accounting is considered to improve legitimacy and performance, earnings management may strengthen or weaken this effect. Previous studies mainly examined the direct effect of green accounting on financial performance without considering moderating variables (Faizah, 2020; Pujiasih, 2024). This methodological gap leads to the following hypothesis:

H3: It is suspected that Earnings Management moderates the relationship between Green Accunting and Financial Performance.

Earnings Management as a Moderator between Financial Distress and Financial Performance

Financial distress pressures financial performance, yet managers may use earnings management as a tool to smooth negative outcomes and reassure investors. Prior studies primarily focused on the direct link between financial distress and performance Altman, 1968; Syam et al. (2022), without testing for moderating effects. To address this gap, this study proposes:

H4: It is suspected that Earnings Management moderates the relationship between Financial Distress and Financial Performance.

3. Research Method

Type of research

This study makes use of quantitative research methods. The purpose of this is to put the presumption to the test. Sugiyono (2019) states that quantitative research is a philosophy-based approach to studying a population or sample through the use of research tools to gather data and statistical or quantitative analysis of that data.

Operational Variables

Dependent Variable (Related Variable)

a. Financial Performance

According to Sugiyono (2022), When one variable has an effect on another, we say that the two variables are dependent. Financial Performance, as assessed by Economic Value Added (EVA), serves as the dependent variable in this study.

EVA = NOPAT - *Capital Charges*

From this formula, EVA is net operating profit after tax (NOPAT) minus capital charges. In addition to this formula, there are several variables related to the discussion in this study, namely NOPAT, WACC, IC, and CC.

Independent Variables (Independent Variables)

a. Green Accounting

Green Accounting disclosed by companies through their annual reports is calculated by adding up and then dividing by the overall quantity of indicators that should be disclosed, which is 14 indicators (Pratiwi & Suripto, 2022).

$$GA = \frac{\text{Total Green Accounting Disclosure Items}}{\text{Total Indicators Disclosed}}$$

Financial Distress

Here is how the Altman Z Score model, a calculating methodology for predicting financial troubles in a company, measures financial distress:

$Z = 6.56X1 + 3.26X2 + 6.72X3 + 1.05X4$

Explanation:

X1 = Working Capital / Total Assets
X2 = Retained Earnings / Total Assets
X3 = EBIT / Total Assets
X4 = Book Value of Equity / Book Value of Debt

Moderating Variables

Earnings Management

Modified discretionary accruals based on the modified Jones model (Dechow et al., 1995) are used to determine Earnings Management in this study.

$$DACCt = \frac{TACCt}{ASSETS_{T-1}} - NDACC$$

Data Analysis Techniques

In this study, panel data analysis can be done using either the Common Effect or Fixed Effect methods, or even the Random Effect approach. The Chow, Hausman, and Langrange multiplier tests are employed to determine which approach is most suitable for this investigation.

4. Results and Discussion

Chow Test

Table 1. Results of the Chow Test.

Effects Test	Statistic	d.f.	Prob.
Cross-section F	17,495.524	-6.23	0.0000
Cross-section Chi-square	60,071.418	6	0.0000

Source : E-Views 10, 2025

After reviewing the outcomes of the Chow Test, we may conclude that the Fixed Effect Model (FEM) is the best fit, as the cross-section F probability value is 0.000 ⊑ 0.05, therefore rejecting H0.

Hausman Test

Table 2. Results of the Hausman Test.

Test Summary	Chi-Sq Statistic	Chi-Sq d.f.	Prob.
Cross-section random	45.085236	5	0.0000

Source: E-Views 10, 2025

The results of the Hausman test indicate that the cross-section probability value is 0.0000 ≤ 0.05, which means that H0 is rejected. The Fixed Effect Model (FEM) is the best model to apply.

LM Test

An LM test is unnecessary because the Fixed Effect Model (FEM) outperformed the common effect and random effect models, as determined by the Chow and Hausman tests.

Model Conclusion

Table 3. Model Conclusion.

No	Regression Model	Test	Result
1	Chow Test	CEM vs. FEM	FEM
2	Hausman Test	FEM vs. REM	FEM

Source: Data Processed By Researchers, 2025

After determining that the Fixed Effect Model (FEM) was the better of the two models tested, the following step is to run multiple regressions using this model.

Classical Assumption Test

Normality Test

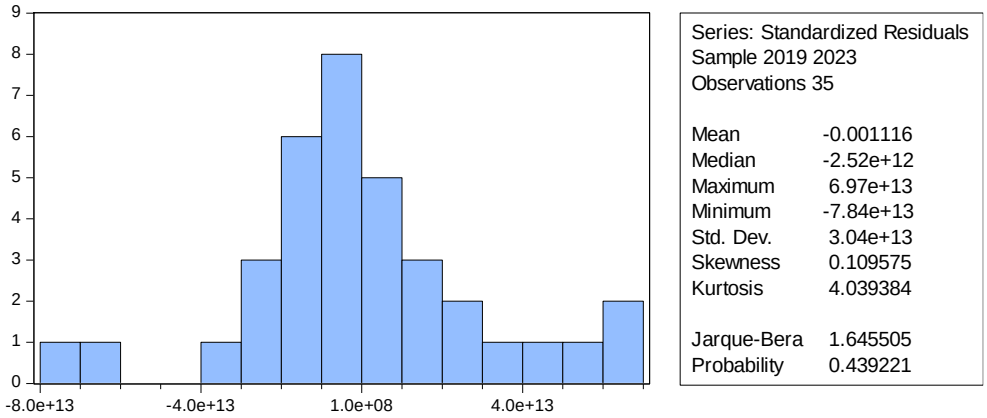

Figure 1. Results of the Normality Test
Source: E-Views 10, 2025

The normality test results after removing outliers showed a probability of 0.439221 > 0.05 and a Jarque-Bera value of 1.645505, so the residuals were declared to be normally distributed according to (Ghozali, 2017) criteria.

Heteroscedasticity Test

Table 4. Results of the Heteroskedasticity Test

Heteroskedasticity Test: ARCH			
F-statistic	3.373011	Prob. F(1,26)	0.0777
Obs*R-squared	3.215343	Prob. Chi-Square(1)	0.0730

Source: E-Views 10, 2025

The data in the table indicates that there is no heteroscedasticity issue because the probability value of obs*R-squared is 0.0730 > 0.05, which means that H0 is rejected.

Multicollinearity Test

Table 5. Results of the Multicollinearity Test.

	GREEN	FD	MANLAB
GREEN	1	-0.15540	0.01359
FD	-0.15540	1	-0.11204
MANLAB	0.01359	-0.11204	1

Source : E-Views 10, 2025

The correlation analysis yielded a value less than 1. Results below 1 show that there is no multicollinearity between any of the independent variables. Correlation analysis results showvalue < 1 indicates this indicates that all variables are independent and do not exhibit multicollinearity with each other because the results are less than 1

Autocorrelation Test

Table 6. Result of the Autocorrelation Test.

Type of Autocorrelation	Value
Durbin Watson	1.394284

Source : E-Views 10, 2025

A result of 1.394284 was produced by the autocorrelation test that was conducted using the Durbin-Watson (DW) method. We may conclude that the regression model is free of autocorrelation issues since this result is within the range of -2 to +2.

Hypothesis Testing and Moderated Regression Analysis

Tabel 7. FEM Test Results

Variable	t-Statistic	Prob.
C	-0.056776	0.9552
GREEN	-5.098215	0.0000
FD	3.142188	0.0046
MANLAB	0.452755	0.6550
GREEN*MANLAB	0.469278	0.6433
FD*MANLAB	-0.752197	0.4596

Source : E-Views 10, 2025

$$EVA = -0.056776 - 5.098215\text{GREEN} + 3.142188\text{FD} + 0.452755\text{MANLAB} + 0.469278\text{GREEN} * \text{MANLAB} - 0.752197\text{FD} * \text{MANLAB} + e$$

The Green Accounting (GREEN) variable has a t-value of -5.098215 and a significance value of 0.0000, according to the t-test results in Table 5. 0.05). What this indicates is that the dependent variable is somewhat affected by Green Accounting.

More so, the t-value for the Financial Distress (FD) variable is 3.142188 and the significance level is 0.0046. Since the significance value is 0.0046 < 0.05 and 3.142188 > 1.98609, we can reject H0 and accept Ha. This proves that the dependent variable is significantly impacted by Financial Distress.

The t-value for the interaction variable GREEN*MANLAB was 0.469278, and the corresponding significance level was 0.6433. We accept H0 and reject Ha since the significance value is more than 0.05 and 0.469278 is less than 1.98609. Thus, there is no statistically significant relationship between the dependent variable and the interaction of Green Accounting and Profit Management.

Coefficient of Determination

Table 8. Coefficient of Determination.

Description	Value
R-squared	0.862882
Adjusted R-squared	0.797303

Source: E-Views 10, 2025

Using the coefficient of determination, the results demonstrate an adjusted R-squared value of 0.797303. Green Accounting, Financial Distress, and Earnings Management can explain around 79.73% of the variance in Financial Performance, with other factors accounting for the remaining 20.27%. However, this research model does not specifically address these other factors. Because of this, the employed regression model explains the correlation between the investigated variables.

Discussion

The Effect of Green Accounting on Financial Performance

The FEM results show that the Green Accounting (GREEN) variable is statistically significant (p 0.0000) with a t-value of -5.098215. It may be inferred that Green Accounting significantly impacts Financial Performance since the t-value (5.098215 > 1.98609) is higher

than the t-table value and the significance value is less than 0.05. According to these findings, EVA a measure of financial performance is positively affected by a company's degree of environmental accounting practice disclosure. Stakeholder theory (Freeman, 1984) supports this view, arguing that environmental management has a significant influence on financial success via increasing stakeholder legitimacy and trust. According to (Pratiwi & Suripto, 2022), companies' bottom lines benefit from Green Accounting disclosure, which is in line with the results of this study.

These results, however, contradict those of other studies that have shown that green accounting has no bearing on either financial performance (NPM) or firm value (Tobin's Q) (Faizah, 2020; Pujiasih, 2024). Also, using EVA as a stand-in for financial success, Refiyani & Fitriyana (2024) came to no significant findings. These conflicting findings point to discrepancies in prior research, which might be attributable to variations in performance metrics, industries studied, and time periods of observation. Therefore, this study addresses that knowledge gap by demonstrating that, when measured using EVA, green accounting does in fact significantly impact financial performance.

The Effect of Financial Distress on Financial Performance

An alpha level of 0.0046 and a t-value of 3.142188 indicate statistical significance for the Financial Distress (FD) variable. The relationship between financial distress and financial performance is statistically significant ($p < 0.05$) since the value of 3.142188 is higher than the value of 1.98609. Based on these findings, it seems that EVA has a stronger effect on financial performance when the level of possible financial challenges faced by a company is larger. The idea that a company's performance can be dampened when its finances are in a precarious state is consistent with agency theory. Research by Altman (1968) and Rahayu et al. (2021) supports this conclusion, demonstrating that a company's financial performance can be significantly influenced by the severity of its financial crisis.

Nonetheless, there has been conflicting evidence from earlier research. Although Monica and Sulfitri (2022) discovered that financial difficulty has a negative effect on firm value, Syam et al. (2022) demonstrated that it has a considerable effect. This study adds to the growing body of data showing financial suffering significantly impacts financial performance, filling a gap in the literature that has previously suggested no such relationship between financial distress and business value.

From the perspective of legitimacy theory, firms facing financial distress may experience pressure to maintain their social license to operate by signaling stability and accountability to stakeholders. Disclosing financial risks transparently, or demonstrating corrective strategies, can be interpreted as a legitimacy-seeking behavior to reduce stakeholder concerns and sustain trust (Suchman, 1995; Deegan, 2019). Thus, financial distress not only affects financial outcomes directly but also compels companies to legitimize their existence through enhanced reporting practices, which ultimately links financial stability to corporate legitimacy.

The Effect of the Interaction Between Green Accounting and Earnings Management on Financial Performance

A variable that interacts A t-value of 0.469278 and a significance level of 0.6433 were found for Earnings Management. There is no significant effect of Green Accounting and Earnings Management on Financial Performance due to the fact that the t-value is less than 1.98609 and the significant value is more than 0.05. This proves that earnings management techniques have no effect on the financial performance-enhancing or -reducing power of Green Accounting. Companies' disclosure of environmental accounting does not mitigate the effect of earnings management, to rephrase. These findings cast doubt on the moderation hypothesis and point to Green Accounting's greater autonomy in shaping financial outcomes.

This discovery addresses a knowledge vacuum as the majority of prior research Faizah, (2020), Pujiasih (2024) and Refiyani & Fitriyana (2024) ignored moderating variables when analyzing the impact of green accounting on financial performance and firm value. Since earnings management does not contribute to enhancing the relationship between green accounting and financial performance, this study adds fresh knowledge to the literature on the topic.

The Interaction Effect of Financial Distress and Earnings Management on Financial Performance

A variable that interacts The t-value for Earnings Management is -0.752197 and the significance level is 0.4596. There is no significant influence on Financial Performance from the interaction between Financial Distress and Earnings Management because 0.752197<1.98609 and the significance value > 0.05. Therefore, earnings management strategies cannot mitigate the correlation between financial difficulties and financial results. Irrespective of earnings management measures, this situation can be seen as a financial crisis with a more pronounced direct impact on financial performance.

Many earlier research Altman (1968), Syam et al. (2022) and Pujiasih (2024) failed to account for potential moderators in their examination of the correlation between financial hardship and business success or value. Even though the results are not significant, this study satisfies a methodological need by including earnings management as a moderating variable. These results provide more evidence that financial hardship is a component that significantly affects financial results.

5. Conclusions

Data analysis in this study led to the following conclusions: (1) Green Accounting has a substantial impact on financial performance; (2) Financial Distress has a substantial impact on financial performance; and (3) Greater disclosure of environmental accounting practices improves financial outcomes. However, neither Financial Performance nor the relationship between Green Accounting and Financial Performance, nor Financial Distress and Financial Performance are moderated by Earnings Management, suggesting that corporate transparency and genuine sustainability practices remain more influential in determining financial performance than earnings manipulation.

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