Green Financial Management, Firm Size, and Capital Structure: Practical Implications for Financial Performance of Companies in the SRI-KEHATI Index

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ABSTRACT: The company's efforts to improve financial performance through maximizing profits are not accompanied by the company's concern for the impacts caused, so there are regulations that require companies to commit to carrying out sustainable business practices and care about environmental issues by implementing green financial management. The independent variables in this study are green financial management, firm size, and capital structure, while the dependent variable in this study is financial performance. This study aimed to test and analyze the effect of 1) green financial management on financial performance, 2) firm size on financial performance, and 3) capital structure on financial performance. The population in this study are all companies incorporated in the SRI-KEHATI index for 2017-2022. Sampling was carried out using the purposive sampling method. The data analysis method is a multiple linear regression analysis process using SPSS 26 software. The results showed that partially green financial management and capital structure significantly positively affect financial performance. Firm size has an insignificant effect on financial performance.

KEYWORDS: Capital Structure, Financial Performance, Firm Size, and Green Financial Management

INTRODUCTION

Stakeholders use a company's performance as a reference to assess business feasibility. Financial performance becomes a good indicator of a company's performance, in this scenario, management is thought to have effectively allocated the company's resources to ensure stakeholders will cooperate or build relationships with the business. Financial performance assessment can be done using several ratios, one based on profitability ratios. Fahmi (2017:54) explains that the profitability ratio illustrates the company's profit-making ability. Unfortunately, the company's efforts to improve financial performance through maximum profit are not accompanied by the company's concern for the impacts caused, such as environmental damage due to pollution of production waste. These problems have led the Financial Services Authority (OJK) to issue regulations through POJK Number 51/POJK.03/2017 concerning the Implementation of Sustainable Finance for Financial Services Institutions, Issuers, and Public Companies. This regulation requires companies to be committed to carrying out sustainable business practices and caring about environmental issues.

The company's efforts to comply with the above regulations can be implemented through Green Financial Management (GFM), this company management system prioritizes the interests of internal and external parties, and the company's natural environment (Rizky, 2021). Companies that implement this system are considered more responsible for the environment. Thus, the company's image is good in front of stakeholders, which gives the company more value than other companies (Prena, 2021). Dita and Ervina (2021) state that the company's enhanced reputation due to implementing the GFM system can be leveraged to boost earnings and strengthen the organization's financial performance. The Ministry of Environment and Forestry (LHK) of the Republic of Indonesia also provides information about green financial management through (colour) ratings for company participation in the Company Performance Rating Assessment Program (PROPER). Two categories of assessment criteria must be met in participating in PROPER, the first criterion is the compliance assessment criteria, while the second criterion is an assessment that exceeds the mandatory requirements in the regulations (beyond compliance).

Apart from green financial management, company size can also affect financial performance. Company size is the size of a company in terms of its asset ownership. The greater the number of assets owned, the larger the company is categorized as.

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With many assets, the company's ability to earn profits is easy. This makes company size one of the factors that can affect financial performance when viewed based on the amount of profit earned.

The company needs funds used as capital to obtain the expected profit. The capital structure contains the funding, closely related to the company's management decision. Whether financing its operational activities, the company uses funds from its capital first and then uses other alternative funding from debt or capital from issuing shares. The comparison of funds used can affect the profitability or financial performance of the company. Brigham and Houston (2019:25), if the company uses funds from debt, there will be interest costs on debt in a certain amount, which, of course, can reduce the total profit of a company.

Research on financial performance, especially those influenced by environmental performance (green financial management), can be conducted on companies in the SRI-KEHATI index. This is because the SRI-KEHATI index is one of the indices on the Indonesia Stock Exchange (IDX), which gathers companies with good governance and a high awareness of environmental conditions. The phenomenon of declining financial performance occurred in one of the companies incorporated in the SRI-KEHATI index, namely PT Unilever Indonesia Tbk. throughout 2022 as shown in Figure 1 below.
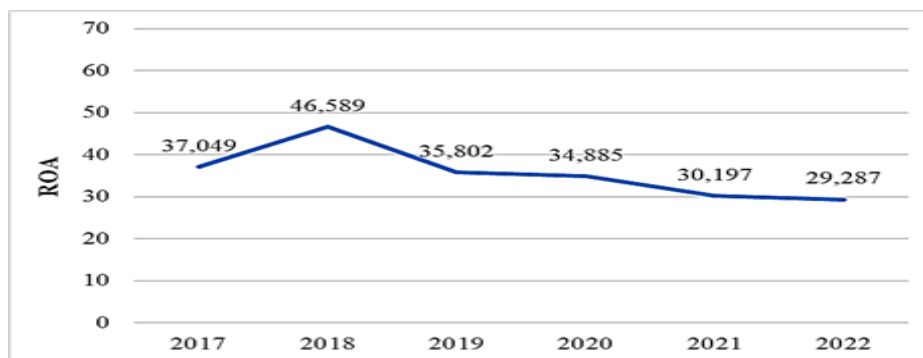

Figure 1. Financial performance (ROA) of PT Unilever Indonesia Tbk. in 2017-2022
Source: Data processed, 2024

The decline in financial performance resulted from a smaller operating profit than the previous year. The problem arose due to an increase in operating expenses by 0.4%. Increased operating expenses can occur due to environmental costs incurred by the company, as stated in the sustainability report of PT Unilever Indonesia Tbk. The decline in financial performance experienced by the company occurred due to the implementation of the green financial management system, which is one of the aspects assessed in PROPER.

Based on the phenomena that occur and the inconsistent research results, there is a gap that becomes a gap for further research. The study's formulation of the issue is whether the capital structure, firm size, and green financial management impact the financial success of SRI-KEHATI index companies registered in PROPER for the 2017–2022 timeframe. Based on the background and formulation of the problem, this study aims to test and analyze the effect of green financial management, company size, and capital structure on financial performance in SRI-KEHATI index companies for the period 2017- 2022 registered in PROPER.
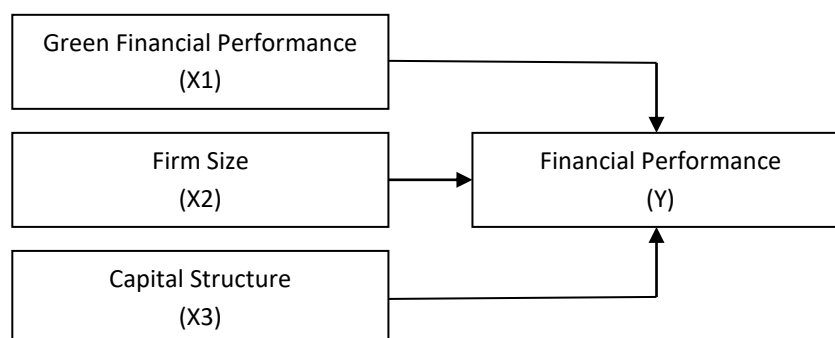

Figure 2. Conceptual framework

Based on the explanation above, there are several desired goals as follows:

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1. This study aims to test and analyze the effect of green financial management on financial performance in SRI-KEHATI index companies registered in PROPER for 2017-2022.
2. This study aims to test and analyze the effect of green financial management on financial performance in SRI-KEHATI index companies registered in PROPER for 2017-2022.
3. This study aims to test and analyze the effect of green financial management on financial performance in SRI-KEHATI index companies registered in PROPER for 2017-2022.

Table 1. Previous Research

Name	Variable	Analysis Method	Results and Conclusion
Moch Bisyri Effendi (2018)	Dependent Variable: Financial Performance Independent Variable: Environmental Disclosure and Environmental Performance	Multiple Regression Analysis	The results showed that environmental disclosure as measured by the GRI index and environmental performance as measured by the PROPER index influence the company's financial performance. The most influential variable on financial performance is environmental performance, proxied by the PROPER index.
Fang Chen, Thomas Ngniatedema, dan Suhong Li (2018)	Dependent Variable: Financial Performance Independent Variable: Green Initiatives Mediating Variable: Green Performance Moderating Variable: Country	Regression Analysis	The results showed that green initiatives positively influence green performance but have a weak and negative influence on financial performance. Then, green performance has a positive influence on financial performance. This causes an indirect influence between green initiatives and financial performance. The results also mention that there is an influence of green initiatives on green performance that varies in each country.
Martha Angelina and Enggar Nursasi (2021)	Dependent Variable: Financial Performance Independent Variables: Green Accounting and Environmental Performance	Multiple Regression Analysis	The results showed that neither green accounting nor environmental performance partially influenced financial performance.
Dini Amalia Rizky (2021)	Dependent Variable: Financial Performance Independent Variable: Green Financial Management Moderating Variable: Firm Size	Multiple Regression Analysis and Moderated Regression Analysis (MRA) Method	The results showed that green financial management, measured by CSR and PROPER value, affects financial performance with ROA proxy. While CSR has a significant effect on ROA partially, with a negative correlation direction, PROPER value has no significant effect on ROA. And firm size cannot moderate the influence between CSR and PROPER value on ROA.
Dhan Raj Chalise and Naba Raj Adhikari (2022)	Dependent Variable: Financial Performance Independent Variables: Capital Structure and Firm Size	Multiple Regression Analysis	The results showed a negative relationship between capital structure and financial performance proxied in Return on Assets (ROA) and Earnings per Share (EPS). While the company size variable has a positive relationship with ROA and EPS.

METHOD

Research Design

This research uses quantitative methods with the type of research used, namely explanatory research. Sari et al., (2023) state that explanatory research aims to explain the relationship between the independent variable and the dependent variable as the research variable and the influence between the two variables.

Data Types and Sources

This study uses quantitative data obtained by calculating a specific measurement scale. The data sources in the study are included in secondary data sources, which are data sources obtained through documents published by an organization (Siregar, 2017:16). The data used is obtained by downloading annual financial reports on the IDX website (www.idx.co.id) or the official

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website of each company as well as the PROPER assessment which can be downloaded through the PROPER website (https://proper.menlhk.go.id).

Population and Sample

The population in this study were all companies incorporated in the SRI-KEHATI index on the IDX. The sampling technique used in this study was purposive sampling. With the criteria applied, namely:

a. Companies incorporated in the SRI-KEHATI index on the IDX and registered in PROPER for 6 consecutive years in 2017-2022 and not delisted.

b. The company has published its annual financial statements during the study period.

   Based on the above criteria, only 6 companies in the SRI-KEHATI index meet the criteria so that the total data in this study is 36 data.

Data Analysis Method

The data analysis method in this study begins with descriptive statistical analysis to facilitate reader understanding and analysis through a picture and description of the data based on the average value, minimum and maximum values, and standard deviations. Then, multiple linear regression analysis will be conducted to test the effect of two or more independent variables on one dependent variable of the study. The data normality test was carried out using the Kolmogorov-Smirnov test. Performing classical assumption tests includes multicollinearity tests, heteroscedasticity tests using the White test, and autocorrelation tests using the Durbin-Watson test. Hypothesis testing in this study uses the t-test to partially show each independent variable's significant effect on the dependent variable.

RESULTS AND DISCUSSIONS

RESULTS

Descriptive Statistics

Descriptive statistics in this study explain the average value (mean), minimum and maximum values, and standard deviation of each research variable, including X1, X2, X3, and Y.

Table 2. Descriptive Statistics of Research Variables (n = 36)

Model	Mean	Minimum	Maximum	Std. Deviation
X1	1.62611	1.000	2.610	0.796005
X2	0.11789	0.017	0.413	0.116837
X3	1.07211	0.186	3.583	0.909986
Y	0.12639	0.027	0.466	0.112281

Source: Data processed, 2024

Description: X1 (Green Financial Management), X2 (Company Size), X3 (Capital Structure), Y (Financial Performance)

Normality Test

The results of the data normality test show that the data used in the study, as much as 36 data are normally distributed. This is indicated by a significance value of 0.200, which is greater than the significance level of 5% or 0.05.

Table 3. Data Normality Test Results (n = 36)

One-Sample Kolmogorov-Smirnov Test	
Asymp. Sig. (2-tailed)	0.200

Source: Data processed, 2024

Multiple Linear Regression Analysis

The results of multiple linear regression analysis to analyze the effect of each independent variable on the dependent variable can be shown through the regression equation as follows:

$Y_{it} = 0.059 + 0.004X1_{it} - 0.236X2_{it} + 0.082X3_{it}$

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Table 4. Multiple Linear Regression Analysis Results

Model	Unstandardized Coefficients B	t	Sig.
Constant	0.059	1.077	0.290
X1	0.004	0.208	0.837
X2	-0.236	-1.898	0.067
X3	0.082	4.675	0.000

Source: Data processed, 2024

Multicoloniearity Test

The results of the multicollinearity test in Table 5 show that all independent variables in the study, consisting of green financial management (X1), company size (X2), and capital structure (X3), have a tolerance value > 0.1 and a VIF value < 10. These results indicate that there are no symptoms of multicollinearity in the study.

Table 5. Multicoloniearity Test Results

Model	Collinearity Statistics	
	Tolerance	VIF
X1	.674	1.485
X2	.813	1.231
X3	.670	1.491

Source: Data processed, 2024

Heteroscedasticity Test

The results of the heteroscedasticity test using the White Test in Table 6 show the R^2 value of 0.084 so that the c^2 count is 3.024 (obtained from $R^2 = 0.084$ multiplied by n = 36 samples). The c^2 table value based on the formula df = k - 1 or 3 - 1 = 2 at a significance level of 5% or 0.05 is 5.991. The basis for decision-making is that the c^2 count 3.024 is smaller than the c^2 table 5.991. This means that the calculated c^2 value is smaller than the c^2 table. It can be concluded that there are no symptoms of heteroscedasticity in this study.

Table 6. Heteroscedasticity Test Results (n=36)

Model	R	R Square	Adjusted R Square
1	.291ª	.084	-.001

Source: Data processed, 2024

Autocorrelation Test

The number of independent variables used in this study is three variables, and the amount of data is 36 data, resulting in a dL value of 1.295 and a dU value of 1.654, so the value of 4 - dU is 2.346. This figure is obtained through the Durbin-Watson table. The autocorrelation test results shown in Table 7 indicate that the Durbin-Watson (DW) value < dL, so it can be stated that there is positive autocorrelation in the research regression model. The autocorrelation problem can be corrected using the Cochrane-Orcutt method.

Table 7. Autocorrelation Test Results

Model	Durbin-Watson
1	.804

Source: Data processed, 2024

The results of the autocorrelation test after repairing with the Cochrane-Orcutt method presented in Table 8 show that repairing the autocorrelation problem using the Cochrane-Orcutt method resulted in a DW value of 1.813. The DW value obtained after

making improvements meets the criteria for testing the absence of autocorrelation in the regression model, namely dU < DW < 4 - dU with a value of 1.654 < 1.813 < 2.346.

Table 8. Correction Result of Autocorrelation Test

Model	Durbin-Watson
1	1.813

Source: Data processed, 2024

Based on the results of the autocorrelation test improvement, the research regression equation model using the Cochrane-Orcutt method is as follows:

$$Y_{it} = 0.046 X1\_1_{it} - 0.111 X2\_1_{it} + 0.165 X3\_1_{it}$$

Hypothesis Test

Hypothesis testing in the study was carried out using the t-test to determine the significant effect of the independent variable on the dependent variable based on the comparison of the significance value (Sig.) with the significance level (α) of 5%. If the significance value (Sig.) is smaller than the significance level (α), then H0 is rejected, and Ha is accepted, this indicates that the independent variable significantly affects the dependent variable and vice versa.

Table 9. Hypothesis Test Results

Model	Unstandardized Coefficients B	t	Sig.	Description
X1	.046	2.380	.023	Significantly affected
X2	-.111	-.462	.647	No significant effect
X3	.165	6.842	.000	Significantly affected

Source: Data processed, 2024

DISCUSSION

Hypothesis testing uses the t-test to determine the significant effect of the independent variable on the dependent variable. This study uses a significance level of 5% or 0.05.

1) The Effect of Green Financial Management on Financial Performance

This study's green financial management variable is measured using the PROPER rating value given by the Minister of Environment and Forestry based on the company's compliance and consistency in managing the environment. The colour gold indicates the highest rating and so on (Suteja, 2018:39). The results showed that green financial management has a significant effect on financial performance with a positive correlation direction in SRI-KEHATI index companies on the IDX and also those listed on PROPER. This means that the better the company manages its finances by paying attention to its responsibility for environmental issues, which can be reviewed through the PROPER rating, the greater the company's profit, which measures financial performance, and vice versa.

The company is not an entity that only operates for its interests. Instead, it must also benefit stakeholders, consumers, communities, and other parties, including the natural environment around the company. As mentioned earlier, this means that the company management must formulate the right management strategy to get a positive response from the parties who will benefit from the company. One of the management's efforts is shown through the implementation of green financial management as a financial management system that considers not only profitability but also various aspects such as limited resources, social benefits, and the business's efforts to protect the environment when developing its vision and goal. Green financial management describes financial management activities carried out by companies that are oriented to follow the rules of the market economy and the laws related to preserving the natural environment. Therefore, the existence of an environmentally friendly financial system makes the company allocate part of its funds to carry out activities such as waste management, pollution control, and other environmental management practices that must be fulfilled to obtain a PROPER rating.

Financial management is shown through an increase in the company's projects and investments in activities that support sustainable business. The allocation of funds for environmental management shows that the company has consistently made

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environmental conservation efforts so that there is trust from existing parties, including the community, which can potentially become consumers of the company later. This can certainly provide more benefits for the company in increasing its profit. Thus, the company's financial performance can grow faster. Following agency theory, companies implementing a green financial management system are considered more responsible for their social and natural environment. This is due to management's performance in accordance with stakeholders' expectations so that there are no agency problems that indicate a good relationship between the two.

2) The Effect of Company Size on Financial Performance

The firm size variable in this study uses a stand-in for the total asset worth of the company. According to Gunawan et al. (2022), one can ascertain the size of a corporation by examining all of its assets. The findings demonstrated that company size had no discernible impact on financial performance for both firms listed on the PROPER and SRI-KEHATI index companies on the IDX. This implies that a company's size, as measured by its total assets, has no bearing on its financial performance.

Large total assets can make it easier for companies to access the market, especially the capital market. This convenience allows the company to get funds easily, which can be used to ensure the continuity of the company's operational activities. The company's large size does not necessarily make the company's financial performance good. For example in 2022, PT Indofood Sukses Makmur Tbk. (INDF) which is included in the category of large-sized companies with a small financial performance proxied by Return on Asset (ROA). Different results are shown by companies with smaller sizes, namely PT Kalbe Farma Tbk. (KLBF) This company had a more significant financial performance (ROA) in the same year. This suggests that an increase in the company's size relative to its total assets does not always translate into improving its financial performance (ROA). The fact that a company's size has no discernible impact on its financial performance indicates that a large asset base does not always translate into the highest possible profit margin for the business.

This happens because the company management does not manage the total assets, which are a proxy for the size of the company. This means that assets as company resources do not have high productivity, so the benefits obtained by the company are not maximized, or the company's financial performance is not in good condition. This research does not follow agency theory, where the success of the management in increasing the total assets owned cannot cause the company's financial performance to be good. The factor that causes this to happen is the inability of management to manage existing resources, especially the company's total assets.

3) The Effect of Capital Structure on Financial Performance

The ratio of cash the company uses from internal and external sources-in the form of equity and debt-serves as a stand-in for the capital structure variable in this study (Riyanto, 2016:282). The findings demonstrated that capital structure significantly influences financial performance in SRI-KEHATI index businesses on the IDX and those listed on PROPER, with a positive correlation direction. This implies that the ratio of money utilized in equity to debt might enhance the business's financial performance.

The increasing capital structure shows that the company increases the amount of debt. The increase in debt can be caused by the company's goal to strengthen operational activities and expand or expand the business. This goal can undoubtedly increase the company's growth so that the company's funding needs also get bigger. If previously the company's funding or working capital needs prioritized funds from internal parties only, namely in the form of limited equity, then based on the order of the financing as in the pecking order theory, the second alternative to meet these funding needs is from debt.

PT Astra International Tbk (ASII), in 2022, used funding from debt as working capital and financing for other general activities. The company tries to manage and allocate working capital from debt appropriately so that it can be used to finance the company's daily operations. The Company also uses debt to increase the amount of assets, especially related to business equipment such as the purchase of heavy equipment in each division of the heavy equipment business, mining division, construction division, and energy division. The addition of these assets can strengthen the company's ability to carry out its operational activities and achieve business expansion goals, generating higher profits and improving its financial performance.

The use of debt greater than funds from internal parties also increases the risk of default borne by the company. This will encourage management to manage capital productively. This effort is very important because the company must pay for the debt used. Based on agency theory, the optimal balance of capital structure accompanied by the use and management of good capital to increase company profits reflects management's performance in accordance with stakeholders' expectations. This can also increase the trust of other parties in cooperating with the company.

Based on the pecking order theory, when there is an internal funding deficit from the company's capital, funds from debt can be used. The use of debt can benefit the company because the interest rate set by the creditor (debt lender) is based on economic

problems that occur so that the amount of the interest rate does not burden the company as a debtor. The decision to use debt is the second funding alternative chosen because if the company decides to obtain funds from issuing shares, the time needed to get these funds will be longer.

CONCLUSIONS

The study concludes that green financial management significantly and positively correlates with financial performance based on the research findings and the discussed debate. This implies that a company's financial performance will increase directly to its efforts towards implementing green financial management. A company's size does not impact financial performance much. This implies that a company's size does not affect its financial performance. Capital structure significantly impacts financial performance, and there is a positive association between the two. This implies that a company's financial performance increases with its capital structure.

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