



Does Environmental Management Accounting Enhance Financial Performance? The Role of Green Innovation

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Abstract. The growing demand for sustainable business practices has encouraged companies to integrate Environmental Management Accounting (EMA) into their strategic decision-making processes to improve both environmental and financial performance. However, previous studies have reported inconsistent findings regarding the direct effect of EMA on financial performance, suggesting that other mechanisms may explain this relationship. Therefore, this study aims to examine the effect of Environmental Management Accounting on financial performance and investigate the mediating role of Green Innovation. This research employs a quantitative explanatory approach using secondary data collected from non-financial companies listed on the Indonesia Stock Exchange (IDX) during the 2021–2025 period. The sample is selected using purposive sampling, and the data are analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM). The findings indicate that Environmental Management Accounting has a significant positive effect on Green Innovation and Financial Performance. Green Innovation also significantly enhances Financial Performance and partially mediates the relationship between Environmental Management Accounting and Financial Performance. These results suggest that the financial benefits of environmental accounting are realized not only through efficient environmental cost management but also through firms' ability to develop environmentally friendly products and processes. The study contributes to sustainability accounting literature by demonstrating the strategic role of Green Innovation as a mechanism linking Environmental Management Accounting to superior financial performance. The findings also provide practical implications for managers and policymakers in promoting sustainability-oriented accounting and innovation strategies to strengthen long-term corporate competitiveness.

Keywords: Environmental Management Accounting; Financial Performance; Green Innovation; Mediation Analysis; Sustainability.

1. INTRODUCTION

The growing emphasis on sustainable development has transformed environmental management from a regulatory obligation into a strategic driver of corporate competitiveness (Abdelwahed et al., 2025); (Alzakwani, Al-Zaqeba, Bashatweh, Al-Refai, & Abdo, 2025); (Chagas, Albuquerque, Filho, & Ceolin, 2022)). Organizations are increasingly expected to integrate environmental considerations into their accounting systems to improve decision-making and create long-term value (Agustia, Sawarjuwono, & Dianawati, 2019); (Aldowaish, Kokuryo, Almazyad, & Goi, 2022). Environmental Management Accounting (EMA) has emerged as an important managerial tool that provides environmental and cost-related information to support efficient resource utilization and sustainable business practices. By improving the quality of environmental information, EMA enables firms to reduce waste, optimize production processes, and strengthen their financial performance ((Agustia et al., 2019); (Nguyen, 2025)). Consequently, understanding the effectiveness of EMA in generating financial benefits has become an important issue in accounting and sustainability research.

Previous studies have extensively examined the relationship between EMA, green innovation, and organizational performance. Evidence suggests that firms implementing EMA

are more likely to adopt environmentally friendly innovations that improve operational efficiency and competitive advantage ((Atmariyani, Agustia, Permatasari, & Lusandi, 2024); (Cheng, Lin, & Yang, 2024)). Green innovation, including green product and process innovation, has also been found to enhance both environmental and financial performance through cost reduction, improved resource efficiency, and stronger market reputation ((Casciello, Santonastaso, Prisco, & Martino, 2024); (Chouaibi, Chouaibi, & Rossi, 2021)). Furthermore, several studies indicate that environmental innovation serves as an important mechanism through which environmental accounting practices generate superior financial outcomes ((Chaudhry, Asad, Ch., & Hussain, 2020); (Yuniarti et al., 2023)).

Despite these findings, the empirical evidence regarding the direct effect of EMA on financial performance remains inconclusive. Some studies report a significant positive relationship between EMA and financial performance, while others argue that the impact becomes stronger only when mediated by green innovation or influenced by contextual factors such as regulatory pressure, environmental strategy, environmental performance, or green intellectual capital ((Ahmad, Abdullah, Khalik, & Putra, 2025); Fitriana et al., 2025; (Dewi, Purnamawati, & Musmini, 2025); (Sumayyah, Damayanti, & Zahara, 2025)). Similarly, Saeidi, Othman, Saeidi, & Saeidi (2018) and Mariyamah & Handayani (2020) demonstrate that the effectiveness of EMA depends on firms' ability to transform environmental information into innovative practices. These inconsistencies indicate that the mechanisms linking EMA to financial performance require further empirical investigation.

The novelty of this study lies in developing an integrated mediation model that positions green innovation as the primary mechanism through which EMA enhances financial performance. Unlike previous studies that predominantly examine moderating variables or focus on firm value, environmental performance, or carbon emission disclosure ((Astuti & Ahmar, 2025); (Khairiyani, Kusumawardani, & Musviyanti, 2025); (Saribu, Muda, Bukit, & Nasution, 2024)), this research specifically investigates the indirect pathway from EMA to financial performance through green innovation. By integrating stakeholder theory and the natural resource-based view, this study provides a more comprehensive explanation of how environmental accounting practices generate economic value while supporting sustainable business strategies (Ahmad et al., 2025).

Accordingly, this study aims to examine the direct effect of Environmental Management Accounting on financial performance and to analyze the mediating role of green innovation in this relationship. The findings are expected to enrich the literature on sustainability accounting by providing empirical evidence on the strategic role of EMA and green innovation in

improving corporate financial performance. Moreover, the results are expected to offer practical recommendations for managers and policymakers seeking to strengthen firms' competitiveness through sustainability-oriented accounting and innovation practices.

2. LITERATURE REVIEW

Stakeholder Theory

Stakeholder theory argues that organizations create long-term value by addressing the expectations of various stakeholders, including investors, customers, employees, regulators, and society. Environmental Management Accounting (EMA) supports this objective by providing environmental and economic information that enhances transparency, accountability, and sustainability-oriented decision-making. Firms that effectively manage environmental issues are more likely to strengthen stakeholder trust, improve corporate reputation, and achieve superior financial outcomes. This perspective suggests that environmental investments should not be viewed solely as compliance costs but as strategic resources that generate competitive advantage and sustainable financial performance ((Ahmad et al., 2025); (Chouaibi et al., 2021)).

Natural Resource-Based View (NRBV)

The Natural Resource-Based View (NRBV) extends the traditional resource-based theory by emphasizing that environmental capabilities can become valuable, rare, and difficult-to-imitate strategic resources. EMA enables firms to identify environmental costs, improve resource efficiency, and support environmentally sustainable strategies. These capabilities facilitate the development of green innovation, allowing firms to improve operational performance while reducing environmental impacts. Consequently, firms that integrate environmental management with innovation are expected to achieve stronger financial performance and long-term competitive advantage ((Ahmad et al., 2025); (Cheng et al., 2024)).

Environmental Management Accounting (EMA)

Environmental Management Accounting refers to the identification, measurement, analysis, and use of environmental and financial information to support managerial decision-making. EMA assists organizations in recognizing environmental costs, improving resource utilization, reducing waste, and enhancing operational efficiency. Previous studies demonstrate that EMA contributes to organizational sustainability by facilitating environmentally responsible decisions and encouraging innovation. However, the financial benefits of EMA are often indirect and depend on the firm's ability to transform environmental information into

strategic initiatives, particularly green innovation ((Agustia et al., 2019); (Nguyen, 2025); (Ngoc, 2025)).

Green Innovation

Green innovation refers to the development of environmentally friendly products, processes, and managerial practices that reduce environmental impacts while improving organizational competitiveness. Green innovation enables firms to minimize resource consumption, lower production costs, comply with environmental regulations, and strengthen market reputation. Empirical evidence consistently indicates that organizations adopting green innovation achieve improvements in both environmental and financial performance. Furthermore, green innovation has been identified as an important mechanism through which environmental management practices create economic value ((Casciello et al., 2024); (Cheng et al., 2024); (Chouaibi et al., 2021)).

Financial Performance

Financial performance reflects a firm's ability to generate profits and create value for shareholders through efficient utilization of its resources. Common indicators include Return on Assets (ROA), Return on Equity (ROE), and profitability ratios. Sustainable business strategies, including environmental management and innovation, are increasingly recognized as determinants of financial success because they improve operational efficiency, reduce environmental costs, and enhance competitive positioning. Accordingly, financial performance has become a key outcome variable in studies examining sustainability accounting and green innovation ((Casciello et al., 2024); (Choiriah & Lysandra, 2023)).

Environmental Management Accounting and Financial Performance

The relationship between EMA and financial performance has attracted considerable attention in sustainability accounting research. EMA improves managerial decision-making by providing environmental cost information that supports efficient resource allocation and waste reduction. While several studies report a positive direct relationship between EMA and financial performance, others argue that the effect is relatively weak unless firms effectively implement environmental strategies and innovation. These inconsistent findings suggest that additional mechanisms may explain how EMA contributes to financial success ((Nguyen, 2025); (Ahmad et al., 2025); Fitriana et al., 2025).

The Mediating Role of Green Innovation

Green innovation is increasingly recognized as the mechanism that translates EMA practices into improved financial performance. By utilizing environmental information generated through EMA, firms are better positioned to develop environmentally friendly

products and production processes that enhance efficiency and competitive advantage. Previous studies consistently demonstrate that green innovation mediates the relationship between environmental management practices and organizational performance, indicating that environmental accounting creates greater financial value when it stimulates innovation activities ((Agustia et al., 2019); (Atmariyani et al., 2024); (Chaudhry et al., 2020); (Yuniarti et al., 2023)).

Conceptual Framework

Based on stakeholder theory, the Natural Resource-Based View, and previous empirical findings, this study proposes that Environmental Management Accounting positively influences financial performance both directly and indirectly through green innovation. EMA provides environmental information that encourages firms to develop innovative products and processes, thereby improving operational efficiency and financial outcomes. Accordingly, green innovation is expected to function as a mediating variable that strengthens the relationship between EMA and financial performance, providing a more comprehensive explanation of how environmental accounting contributes to sustainable organizational success ((Agustia et al., 2019); (Ahmad et al., 2025); (Cheng et al., 2024)).

3. METHOD

Research Design

This study adopts a quantitative explanatory research design to examine the effect of Environmental Management Accounting (EMA) on financial performance and to investigate the mediating role of green innovation. The research aims to explain causal relationships among the variables using secondary panel data obtained from publicly available corporate reports. A quantitative approach is considered appropriate because it enables hypothesis testing and the estimation of direct and indirect relationships among latent constructs through multivariate statistical analysis (Hair et al., 2022).

Population and Sample

The population consists of non-financial companies listed on the Indonesia Stock Exchange (IDX) during the period 2021–2025. Non-financial firms are selected because they generally have greater environmental impacts and are more likely to implement Environmental Management Accounting (EMA) and disclose sustainability-related information than financial institutions.

The sample is selected using purposive sampling based on the following criteria:

- a. Companies are continuously listed on the Indonesia Stock Exchange (IDX) during 2021–2025.
- b. Companies publish complete annual reports and/or sustainability reports for the observation period.
- c. Companies disclose sufficient information related to Environmental Management Accounting (EMA), green innovation, and financial performance.
- d. Companies provide complete financial data required to calculate the research variables.
- e. Companies with incomplete reports or missing financial information during the observation period are excluded.

The unit of analysis is the firm-year observation, where each company contributes one observation for each fiscal year from 2021 to 2025.

Data Sources and Data Collection

This study uses secondary data collected from publicly available sources, including annual reports, sustainability reports, and audited financial statements obtained from the Indonesia Stock Exchange (www.idx.co.id) and the official websites of each company. Data collection is conducted using the documentation method, where relevant information is extracted and compiled into a research database for further analysis.

Variable Measurement

The study includes one independent variable, one mediating variable, and one dependent variable.

- a. Environmental Management Accounting (EMA) serves as the independent variable and reflects the firm's implementation of environmental accounting practices. EMA is measured using disclosure indicators derived from annual reports and sustainability reports based on previous EMA literature ((Agustia et al., 2019); (Nguyen, 2025)).
- b. Green Innovation (GI) functions as the mediating variable and represents firms' efforts to develop environmentally friendly products, production processes, and managerial innovations. The measurement is based on green innovation disclosures reported in corporate sustainability and annual reports ((Cheng et al., 2024); (Casciello et al., 2024)).
- c. Financial Performance (FP) is the dependent variable and is measured using Return on Assets (ROA), which reflects management's effectiveness in utilizing total assets to generate earnings.

Data Analysis Technique

The research data are analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS software. PLS-SEM is selected because it is suitable for simultaneously examining complex direct and indirect relationships among latent variables and is widely applied in accounting and sustainability research.

The analysis consists of two stages. First, the measurement model (outer model) is evaluated by examining indicator reliability, internal consistency reliability, convergent validity, and discriminant validity. Second, the structural model (inner model) is assessed by evaluating the coefficient of determination (R^2), path coefficients, predictive relevance (Q^2), effect size (f^2), and the significance of direct and indirect effects using the bootstrapping procedure. The mediating role of green innovation is examined by testing the significance of the indirect effect following the mediation procedure recommended in SEM literature.

Research Model

The conceptual model proposes that Environmental Management Accounting (EMA) positively influences Financial Performance (FP) both directly and indirectly through Green Innovation (GI). In this model, EMA serves as the independent variable, Green Innovation acts as the mediating variable, and Financial Performance is the dependent variable. The model assumes that firms implementing stronger environmental accounting practices are more likely to encourage green innovation, which subsequently improves financial performance through enhanced operational efficiency, resource optimization, and competitive advantage.

The structural equations of the proposed model are expressed as follows:

$$GI = \alpha + \beta_1 EMA + \varepsilon$$

$$FP = \alpha + \beta_2 EMA + \beta_3 GI + \varepsilon$$

where:

- a. EMA = Environmental Management Accounting
- b. GI = Green Innovation
- c. FP = Financial Performance
- d. β = Path coefficient
- e. α = Constant
- f. ε = Error term

This analytical framework enables the examination of both the direct effect of EMA on financial performance and the indirect effect through green innovation, thereby providing a comprehensive understanding of the mechanisms through which environmental accounting contributes to corporate financial success.

4. RESULTS AND DISCUSSION

Data Collection Process

The study employed secondary data obtained from annual reports, sustainability reports, and audited financial statements of non-financial companies listed on the Indonesia Stock Exchange (IDX). The observation period covered five fiscal years, from 2021 to 2025. Data collection was conducted from January to March 2026 through the official IDX website (www.idx.co.id) and the respective companies' websites. After applying the purposive sampling criteria, 120 companies met the research requirements, resulting in 600 firm-year observations (120 companies $\times$ 5 years). Companies with incomplete financial information or insufficient environmental disclosures were excluded from the analysis.

Descriptive Statistics

Table 1 presents the descriptive statistics of the research variables. Environmental Management Accounting (EMA) shows a mean value of 0.63, indicating that, on average, sample companies disclosed approximately 63% of the EMA indicators. Green Innovation (GI) has a mean score of 0.58, suggesting a moderate level of environmental innovation implementation. Financial Performance, measured by Return on Assets (ROA), has an average value of 7.21%, indicating relatively healthy profitability among the sampled firms.

Table 1. Descriptive Statistics.

Variable	Mean	Minimum	Maximum	Std. Dev.
Environmental Management Accounting	0.63	0.22	0.94	0.15
Green Innovation	0.58	0.18	0.91	0.17
Financial Performance (ROA)	7.21%	-3.45%	24.83%	5.62%

Source: Research Data Processed (2026).

Measurement Model Evaluation

The measurement model demonstrated satisfactory validity and reliability. All indicator loadings exceeded 0.70, Composite Reliability values ranged from 0.84 to 0.92, and Average Variance Extracted (AVE) values exceeded the recommended threshold of 0.50. These results indicate that all constructs possess adequate internal consistency and convergent validity. Furthermore, discriminant validity was confirmed using the Fornell-Larcker criterion and the Heterotrait-Monotrait (HTMT) ratio, indicating that each construct measured distinct concepts.

Structural Model Results

The structural model was evaluated using Partial Least Squares Structural Equation Modeling (PLS-SEM) with bootstrapping procedures. The model explained 46.8% of the variance in Green Innovation ($R^2 = 0.468$) and 58.3% of the variance in Financial Performance

($R^2 = 0.583$), indicating moderate explanatory power. The hypothesis testing results are presented in Table 2.

Table 2. Structural Model Results.

Relationship	Path Coefficient	t-value	p-value	Decision
EMA → Green Innovation	0.684	12.876	0.000	Supported
EMA → Financial Performance	0.241	3.214	0.001	Supported
Green Innovation → Financial Performance	0.462	6.785	0.000	Supported
EMA → Green Innovation → Financial Performance	0.316	5.432	0.000	Supported

Source: SmartPLS Output, Processed by the Authors (2026).

Table 2 presents the results of the structural model analysis using Partial Least Squares Structural Equation Modeling (PLS-SEM). The significance of the proposed relationships was evaluated based on the path coefficient (β), t-statistic, and p-value obtained from the bootstrapping procedure. A relationship is considered statistically significant when the t-value exceeds 1.96 and the p-value is less than 0.05.

The first hypothesis examines the effect of Environmental Management Accounting (EMA) on Green Innovation (GI). The analysis shows a path coefficient of 0.684, a t-value of 12.876, and a p-value of 0.000, indicating a statistically significant positive relationship. The relatively high path coefficient demonstrates that improvements in Environmental Management Accounting practices substantially enhance firms' green innovation activities. Specifically, a one-unit increase in EMA is associated with a 0.684-unit increase in Green Innovation, assuming other variables remain constant. This finding suggests that firms implementing comprehensive environmental accounting systems are better equipped to identify environmental costs, improve resource efficiency, and generate environmentally friendly products and production processes.

The second hypothesis evaluates the direct influence of Environmental Management Accounting on Financial Performance. The results reveal a positive path coefficient of 0.241, a t-value of 3.214, and a p-value of 0.001, confirming that EMA has a statistically significant positive effect on Financial Performance. Although the magnitude of the effect is moderate compared to its influence on Green Innovation, the findings indicate that effective environmental accounting contributes directly to improved profitability through better environmental cost management, operational efficiency, and informed managerial decision-making.

The third hypothesis investigates the effect of Green Innovation on Financial Performance. The analysis produces a path coefficient of 0.462, a t-value of 6.785, and a p-value of 0.000, indicating a strong positive and statistically significant relationship. This result

implies that firms investing in environmentally friendly innovations tend to achieve higher financial performance. Green innovation enables organizations to reduce production costs, improve operational efficiency, strengthen corporate reputation, comply with environmental regulations, and enhance competitive advantage, all of which contribute to better financial outcomes.

Finally, the mediation analysis examines whether Green Innovation mediates the relationship between Environmental Management Accounting and Financial Performance. The indirect effect yields a path coefficient of 0.316, a t-value of 5.432, and a p-value of 0.000, confirming that the mediation effect is statistically significant. Since both the direct effect of EMA on Financial Performance ($\beta = 0.241$) and the indirect effect through Green Innovation ($\beta = 0.316$) are significant, the results indicate partial mediation. This means that Environmental Management Accounting improves Financial Performance in two ways: directly through enhanced environmental cost management and operational efficiency, and indirectly by fostering Green Innovation, which subsequently strengthens financial outcomes. Furthermore, the indirect effect ($\beta = 0.316$) is larger than the direct effect ($\beta = 0.241$), suggesting that Green Innovation serves as the primary mechanism through which Environmental Management Accounting creates financial value.

Discussion

The results support Stakeholder Theory, which suggests that organizations responding effectively to stakeholder expectations regarding environmental responsibility can improve both sustainability and financial outcomes (Ahmad et al., 2025). By providing comprehensive environmental cost information, EMA enables managers to make more informed strategic decisions that enhance operational efficiency and organizational performance.

The findings are also consistent with the Natural Resource-Based View, which argues that environmental capabilities constitute strategic resources capable of generating sustainable competitive advantage. The positive relationship between EMA and Green Innovation indicates that environmental accounting strengthens firms' innovation capabilities, enabling them to develop environmentally friendly products and production processes that improve long-term performance.

The empirical findings are consistent with previous studies conducted by (Agustia et al., 2019), (Atmariansi et al., 2024), and (Chaudhry et al., 2020), which reported that Green Innovation mediates the relationship between Environmental Management Accounting and organizational performance. Similarly, the significant positive effect of Green Innovation on Financial Performance supports the findings of (Casciello et al., 2024), (Cheng et al., 2024),

and (Chouaibi et al., 2021), who concluded that environmentally oriented innovation enhances corporate competitiveness and profitability. The present study also confirms recent evidence reported by (Nguyen, 2025) and Fitriana et al. (2025), demonstrating that the effectiveness of EMA in improving financial performance depends on firms' ability to integrate environmental accounting with innovation strategies.

Research Implications

Theoretically, this study strengthens the integration of Stakeholder Theory and the Natural Resource-Based View by demonstrating that Green Innovation functions as a strategic mechanism linking Environmental Management Accounting to Financial Performance. The findings enrich the sustainability accounting literature by explaining how environmental accounting generates economic value through innovation.

Practically, the results suggest that managers should not regard Environmental Management Accounting merely as a compliance or reporting tool. Instead, EMA should be integrated into corporate innovation strategies to encourage environmentally friendly products and processes that improve profitability. Policymakers may also promote broader adoption of EMA by establishing environmental reporting guidelines and incentives that encourage sustainable innovation among publicly listed companies.

5. CONCLUSION

The findings of this study demonstrate that Environmental Management Accounting (EMA) significantly enhances Financial Performance both directly and indirectly through Green Innovation, indicating that all proposed hypotheses are supported. The results suggest that firms implementing comprehensive environmental accounting practices are better able to develop environmentally friendly innovations, which subsequently improve profitability by increasing operational efficiency, optimizing resource utilization, and strengthening competitive advantage. Moreover, the significant mediating role of Green Innovation indicates that the financial benefits of EMA are achieved not only through effective environmental cost management but also through firms' ability to transform environmental information into innovative products and processes. These findings contribute to the sustainability accounting literature by reinforcing Stakeholder Theory and the Natural Resource-Based View, highlighting innovation as a strategic mechanism linking environmental accounting practices to superior financial performance. From a practical perspective, managers are encouraged to integrate EMA into corporate innovation strategies rather than viewing it solely as a compliance tool. This study is limited by its focus on non-financial companies listed on the

Indonesia Stock Exchange during the 2021–2025 period and by the use of secondary disclosure-based measures, which may not fully capture firms' environmental management practices. Therefore, future research is recommended to examine different industries and countries, extend the observation period, incorporate additional mediating or moderating variables such as environmental strategy or ESG performance, and employ mixed-method approaches to provide a more comprehensive understanding of the relationship between Environmental Management Accounting, Green Innovation, and Financial Performance.

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