CHAPTER V

CONCLUSIONS AND SUGGESTIONS

A. Conclusion

This study presents conclusions derived from an investigation into the effects of carbon tax implementation and green finance initiatives on the financial performance of manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2021–2023 period.

1. Carbon tax does not have a significant effect on company profitability. Based on the research findings, the implementation of carbon tax shows no statistically significant impact on the profitability of manufacturing companies listed on the Indonesia Stock Exchange during 2021–2023. Although carbon tax is expected to encourage operational efficiency and long-term sustainability, the result indicates that its influence on financial performance is not yet evident. This may be due to the early stage of implementation, limited regulatory enforcement, and the lack of integrated incentives or technological readiness within companies. As a result, carbon tax has not yet become a driving force in enhancing firm profitability within the observed period.
2. Green finance initiatives do not significantly affect company profitability. Despite being introduced to support environmentally friendly investments and sustainability goals, the analysis reveals that green finance has no measurable influence on Return on Equity. This finding suggests that green finance practices may still be viewed more

as compliance tools or long-term strategies rather than immediate profitability drivers. The limited impact could be attributed to high upfront investment costs, immature regulatory frameworks, and inconsistent application across firms. Consequently, the potential financial benefits of green finance remain unrealized in the short term, particularly within Indonesia's manufacturing sector.

B. Research Implication

1. Theoretical Implications

This study provides a meaningful contribution to the body of knowledge regarding the intersection between environmental policies and financial performance in the Indonesian manufacturing sector. The finding that neither carbon tax nor green finance significantly affects profitability challenges the assumptions commonly derived from Legitimacy Theory. While the theory posits that aligning with societal expectations and environmental regulations enhances firm legitimacy and, consequently, financial performance, the results of this study suggest that such alignment does not automatically translate into profitability gains. These findings imply that in developing economies like Indonesia, where policy enforcement, regulatory maturity, and access to sustainable financing remain limited, the effectiveness of environmental instruments in improving profitability may be delayed or indirect. Therefore, theoretical frameworks should account for contextual variables such as policy implementation stage, industry

characteristics, and institutional readiness to better explain the financial impacts of sustainability measures.

2. Practical Implication

   a. For Companies

      The findings suggest that the implementation of carbon tax and green finance initiatives has not yet provided a measurable impact on company profitability in the short term. Therefore, manufacturing firms are encouraged to shift their focus from solely financial outcomes to long-term strategic planning. Investing in energy-efficient technologies, sustainable supply chains, and emission-reducing practices may not yield immediate profits but can improve operational resilience and stakeholder trust over time. Companies should also consider integrating environmental performance into core business processes, supported by internal innovations and stronger ESG (Environmental, Social, and Governance) frameworks to enhance long-term competitiveness.

   b. For Investors

      This study provides insight into the gap between environmental initiatives and immediate financial returns. Investors are advised to assess companies not only based on short-term profitability but also on their long-term sustainability strategies and environmental commitments. Firms that proactively adopt carbon-conscious practices and build strong environmental governance are

likely to perform better in the long run, especially as regulations become stricter and global investment trends increasingly favor sustainable business models. Therefore, green-conscious investing should consider a broader range of indicators beyond Return on Equity alone.

c. For Government and Regulators

The absence of significant profitability effects from carbon tax and green finance points to the need for stronger regulatory mechanisms and more comprehensive support systems. Government agencies and financial regulators are encouraged to refine carbon pricing policies with clearer enforcement and sector-specific guidance. Additionally, the development of green finance infrastructure such as standardized frameworks, accessible incentives, and lower-cost financing options is critical to enhance adoption across industries. Well-targeted policies that align profitability with sustainability objectives will help accelerate industry-wide transitions without undermining financial stability.

d. For Public Awareness

Public understanding and support play a critical role in the success of environmental initiatives. The findings of this study imply that green policies alone are not sufficient unless accompanied by a broader cultural shift toward sustainability. Increasing awareness of the environmental impact of industrial activities can

create social pressure on firms to adopt greener practices. Public campaigns, educational programs, and transparent corporate reporting can help bridge the gap between environmental responsibility and community expectations, encouraging responsible consumption and informed support for environmentally conscious businesses.

C. Research Limitations and Suggestion

This study is limited to manufacturing companies listed on the Indonesia Stock Exchange during the 2021–2023 period. Therefore, the results may not be applicable to other sectors or extended timeframes, considering that different industries may respond differently to carbon tax and green finance policies due to variations in structure, scale, and environmental exposure.

Moreover, profitability in this research is measured solely by Return on Equity (ROE). While ROE is a useful indicator, it does not fully capture all aspects of financial performance. Thus, future research could benefit from incorporating other financial metrics such as Return on Assets (ROA), Net Profit Margin, or Economic Value Added (EVA) to provide a more comprehensive and balanced assessment of corporate profitability.

In addition, the data used in this study are entirely secondary, obtained from publicly available annual and sustainability reports. Although this ensures transparency, it limits the ability to explore deeper insights into how companies internally manage and respond to environmental initiatives.

Including qualitative approaches such as interviews or case studies in future research could enhance understanding from a managerial or strategic perspective.

Furthermore, the low adjusted R-squared value indicates that other important variables beyond carbon tax and green finance may significantly influence profitability. As a result, future studies are encouraged to include additional factors such as firm size, innovation capacity, or environmental strategies to improve the model's explanatory power.

This study employs content analysis to assess green finance initiatives based on company disclosures in annual and sustainability reports. While content analysis provides a systematic approach to quantify narrative data, it has inherent limitations. The method heavily relies on the availability and quality of disclosed information, which may vary across companies and be subject to selective reporting or greenwashing. As a result, the analysis may not fully reflect the actual implementation or effectiveness of green finance practices within firms.

To address this limitation, future research could incorporate triangulation by combining content analysis with more robust data sources, such as third-party environmental audits or ESG (Environmental, Social, and Governance) ratings. Researchers are also encouraged to apply sentiment analysis or machine learning techniques to capture nuances in corporate reporting, allowing for a more precise evaluation of firms' sustainability commitments. Expanding the methodological approach will

help overcome the biases of self-reported data and yield more accurate and reliable assessments of green finance performance.

Finally, because sustainability-related policies often require time to generate measurable financial outcomes, extending the observation period beyond three years would help capture their long-term effects. By broadening the scope, refining variable selection, and combining quantitative and qualitative methods, future research can offer more comprehensive insights into how environmental policies impact corporate performance.