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Role of Green Audit in Improving Financial Performance and Sustainability Sharia Cooperatives in the Green Economy Era

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ABSTRACT

The study aims at examining the impact of Green Audit on the financial performance of Islamic cooperatives in East Java and its sustainability contributions, the interaction of financial performance with sustainability, and the role of Green Audit in both areas of financial and long-term sustainability. The relationships among the variables are clarified through the explanatory research design of the study. The population consists of 724 individuals who were selected from 80 Islamic cooperatives in East Java. A total of 258 respondents were randomly chosen based on the Slovin formula. The SEM-PLS approach was employed for data analysis. The findings reveal a substantial positive effect of Green Audit on financial performance. This indicates that environmental audit practices in the Islamic cooperatives lead to better use of resources, reduced costs, and increased responsibility. Green Audit also shows a big impact on sustainability. This shows that following environmental rules, being honest in reporting, and using resources wisely all help cooperatives stay competitive in the long run. Environmental auditing also helps cooperatives keep their good name and gain the trust of both their own members and their business partners. The sustainability aspect is also correlated with the financial performance very closely. Good financial health, represented by high profits and sufficient cash flow, enables the cooperative to carry out the sustainable initiatives all the time without any interruptions. Moreover, the Green audit indirectly contributes to sustainability by improving the financial performance. In other words, the efficient environmental auditing not only directly helps sustainability but also increases its area of influence by the financial outcome improvements.

Keywords: Green Audit, Financial Performance, Sustainability of Sharia Cooperatives.

JEL Classification: M41; Q56; Q01; P34.

INTRODUCTION

Global economic development has shifted toward a more environmentally friendly approach through a green economy approach, which emphasizes sustainable growth while considering resource efficiency and environmental impact. In the corporate and financial sectors, including Sharia-compliant financial institutions, sustainability has emerged as a top priority. In Sharia cooperatives, sustainability includes social, environmental, and economic factors. This is consistent with the Maqasid Sharia principle, which prioritizes the community's overall well-being (Chapra, 2008). Given this, Green Audit is a crucial tool for ensuring that Islamic cooperative operations not only adhere to Islamic economic principles but also incorporate sustainability and environmental responsibility (Burritt & Schaltegger, 2010).

Green Audit is an evaluation process that measures an institution's compliance with environmental standards and provides recommendations to increase resource efficiency and reduce negative impacts on the environment (Gale & Stokoe, 2001). In the Islamic economic system, the concept of sustainability is also aligned with the principles of ihsan (excellence in action) and maslahah (public interest), where every business activity must consider its impact on humans and the environment (Dusuki & Bouheraoua, 2011).

In various countries, sustainability-based financial practices have been adopted by many Islamic institutions. Islamic banks in Malaysia, for example, have implemented green finance strategies to ensure their investments are environmentally friendly and compliant with Islamic principles (Jan et al., 2018). In Indonesia, the Financial Services Authority (OJK) has issued the 2021-2025 Sustainable Finance Roadmap, which encourages the financial industry to adopt sustainability principles in its operations (Otoritas Jasa Keuangan (OJK), 2021). However, the application of Green Audit in Islamic cooperatives is still very minimal, both in terms of research and implementation, despite its considerable potential in improving operational efficiency and maintaining business sustainability (Billah et al., 2024).

Sharia cooperatives in East Java face unique challenges in implementing sustainability practices. Key obstacles to adopting Green Audits include limited resources, a lack of specific regulations regarding environmental audits within the context of Sharia cooperatives, and low management awareness of the importance of financial transparency and environmental efficiency (Amran et al., 2016). One strategy to address the limitations of Green Audit implementation in Sharia cooperatives is to increase human resource capacity through Sharia-based environmental audit training. Various studies have shown that implementing Green Audits can provide significant benefits for Sharia cooperatives. These audits can improve the transparency of financial reports, reduce operational costs through efficient use of energy and resources, and increase member trust in the cooperative (Theodore, 2024). In addition, the sustainability resulting from the implementation of Green Audit can also increase the competitiveness of Islamic cooperatives in the financial industry (Rashid & Uddin, 2018).

In this research, Sharia Cooperatives in East Java were chosen as case studies because their management systems are beginning to move towards sustainable practices. However, the extent to which Green Audit has been implemented and its impact on sustainability aspects in these Sharia Cooperatives still requires further investigation. Therefore, this study aims to analyze the role of Green Audit in improving the financial performance and sustainability of Sharia Cooperatives and identify factors that support and hinder its implementation.

This research is expected to improve Sharia cooperatives' understanding of the importance of Green Audits as part of their sustainability strategy. Furthermore, the results can serve as a reference for regulators and stakeholders in formulating policies that support the implementation of Green Audits in the Sharia financial sector.

LITERATURE REVIEW

Green Audit

Green auditis generally understood as a systematic assessment process of an organization's practices, processes, and performance to ensure operations are in line with established environmental and sustainability performance objectives. Recent reviews emphasize that sustainability/environmental audits serve to assess gaps between actual practices and benchmarked standards, while providing recommendations for continuous improvement at the policy, process, and performance outcome levels.(Hariyani et al., 2025)In the context of governance, green auditing expands the scope of traditional audits by incorporating the dimensions of environmental impact, materiality, and risk as part of sustainability management assurance. This approach aligns with sustainability reporting trends that demand accountability for an organization's environmental inputs, processes, outputs, and outcomes.

The most widely used reference standard for structuring green audits is ISO 14001:2015 on Environmental Management Systems (EMS). This standard provides a framework for organizations to establish environmental policies, identify significant impacts, comply with legal requirements, conduct internal audits, and implement continual improvement, with audits serving as a key check mechanism in the PDCA cycle (ISO, 2025). The ISO 14001 audit practice guide outlines the audit stages (planning, implementation, reporting, and follow-up) to verify the conformity of documents, processes, training, and performance to ISO 14001 clauses. Operationally, organizations often combine internal ISO 14001 audits with external audits by certification bodies to ensure the effectiveness of their EMS and opportunities for improvement (Tošić, 2023)

Green auditIt functions as an assurance and organizational learning mechanism, linking compliance, performance, and continuous improvement. In the context of Islamic cooperatives, green audits also align with the principles of maslahah and amanah (trustworthiness): preventing environmental harm, increasing efficiency, and strengthening accountability to members. Building on the ISO 14001 framework and global/regional reporting requirements, recent literature indicates that a well-developed green audit can be a driver of both financial performance and socio-environmental sustainability, as long as it is integrated with the organization's strategy, budgeting, and management information systems (Hariyani et al., 2025).

Meanwhile, Goyal & Kumar (2017) emphasized that green audits play a crucial role in improving organizational governance by encouraging energy efficiency, waste reduction, and more effective resource management. These audits serve as a management tool capable of identifying weaknesses and potential improvements in environmentally friendly practices within institutions, including Islamic cooperatives. Green audits enable organizations to adapt to the evolving demands of the green economy. Environmental audits, also known as Green Audits, are an environmental accountability instrument used to assess the extent to which a company or organization complies with environmental regulations, manages resources efficiently, and presents transparent reports to stakeholders. According to Khasanah & Dewi (2021), Green Audits serve as a strategy to improve a company's environmental performance through a systematic evaluation mechanism.

The main indicators in a Green Audit generally consist of three main aspects: compliance with environmental regulations, efficient use of resources, and transparency of reporting. Montana et al. (2025) compliance with environmental regulations is the basic foundation of green auditing practices, as sustainability can only be assured if an organization complies with applicable legal standards and environmental policies. Devi & Firoz (2025) emphasizes the importance of efficiency in the use of resources, such as energy, water, and raw materials, as this efficiency not only reduces ecological impacts but also improves the financial performance and competitiveness of an organization. On the other hand, Prasetya et al. (2025) added that transparency in reporting on environmental performance is an important indicator that determines the level of stakeholder trust in the organization.

Financial Performance

Financial performance is an important aspect in assessing the effectiveness of an organization or company, including Islamic cooperatives, in managing economic resources to achieve established goals. Fahmi (2015)Financial performance is a reflection of a company's success, which can be measured through financial analysis, including aspects of liquidity, profitability, and solvency. Kasmir (2019) states that financial performance reflects the company's ability to manage assets and liabilities to generate sustainable profits, so that it can be used as a basis for decision making for management and stakeholders.

Another opinion was put forward Harahap (2018) which emphasizes that financial performance serves as an indicator of management's success in managing financial resources and can be used to assess a company's future prospects. In line with this,Horne & Wachowicz (2012) explains that financial performance analysis includes evaluating financial reports to assess financial condition, operational efficiency, and growth potential. Meanwhile, according to Subramanyam (2014) Financial performance can be measured through various financial ratios, such as profitability, liquidity, leverage, and activity ratios, which provide a comprehensive picture of an organization's financial health. Therefore, based on the views of these experts, financial performance is not only oriented towards achieving short-term profits, but also how an organization can maintain efficiency, liquidity, and long-term financial sustainability.

Cooperative financial performance indicators generally cover several important aspects, including profitability, liquidity, operational efficiency, and asset growth (Kasmir, 2019; Fahmi, 2015; Harahap, 2018; Horne & Wachowicz, 2012). According to Kasmir (2019), profitability is a measure that describes a cooperative's ability to generate profits, which is the main benchmark for successful financial management. Furthermore, Fahmi (2015) explains that liquidity is used to assess the extent to which a cooperative is able to meet its short-term obligations in a timely manner, thus indicating healthy cash management. In terms of efficiency, Harahap (2018) emphasizes that operational efficiency reflects management's ability to manage resources effectively by comparing operating expenses to generated operating income. Meanwhile, Horne & Wachowicz (2012) add that asset growth is an indicator that shows the cooperative's ability to expand its business activities by increasing total assets, which also reflects the cooperative's future sustainability prospects. Thus, these four indicators complement each other in assessing the overall financial condition of the cooperative, both in terms of profit, liquidity, management efficiency, and long-term growth prospects.

Cooperative Sustainability

Cooperative sustainability is a concept that emphasizes the importance of cooperatives not only being oriented towards achieving short-term profits, but also towards long-term business sustainability through a balance of economic, social and environmental aspects. Mazzarol et al. (2014) explains that the sustainability of cooperatives is determined by three main dimensions, namely economic sustainability, social sustainability, and environmental sustainability. A similar view was expressed. Jussila et al. (2012), which states that a sustainable cooperative is one that is able to maintain a balance between the interests of its members and the interests of the wider community through ethical and inclusive business practices. Hendar & Kusnadi (2017) added that the sustainability of cooperatives is influenced by the quality of governance, the professionalism of management, and the active participation of members. This is in line with the view of the ICA (International Co-operative Alliance, 2015), which states that cooperative principles, such as member education, cooperation between cooperatives, and concern for the community, are important foundations for achieving long-term sustainability. Thus, cooperative sustainability can be understood as the ability of cooperatives to integrate economic, social, and environmental dimensions into long-term strategies, so that cooperatives not only survive but are also able to grow and provide broad benefits to their members and the surrounding community.

Elkington (1998) introduced the concept of the "Triple Bottom Line," which broadens the understanding of sustainable development by considering three main aspects: Profit (economic), People (social), and Planet (environmental). This approach emphasizes that sustainability must consider not only the economic aspects, but also the social and environmental impacts of development activities. Sustainability refers to a condition where current development does not affect the process of meeting the needs of future generations (Adams & Abhayawansa, 2022). Sustainability emphasizes the importance of maintaining a balance between economic growth, environmental preservation, and social justice. Sustainability is a key principle in decision-making, at the individual, organizational, and government levels, to ensure that existing natural resources and ecosystems can continue to support life in the future. Sustainable development focuses not only on achieving short-term goals, such as financial gain or economic expansion, but also considers the long-term impact on the environment and society. In the business world, this concept is becoming increasingly relevant, where companies are expected to pursue more than just profits, but also contribute to environmental sustainability and the well-being of society. By implementing sustainability principles, organizations can create sustainable value for all stakeholders, both now and in the future.

Sustainable performance aspects as a communication channel with stakeholders certain to convey the vision and mission and of course the existence of short-term and long-term strategies which are expected to improve performance (Bae et al., 2018; Hussain et al., 2018; Naciti, 2019). Various efforts have been made to improve and maintain sustainable performance due to the many demands and the existence of many businesses, in this case, businesses in entrepreneurship, so that a clear and directed policy is needed that must be implemented by individuals and groups of individuals (Suriyankietkaew, 2022; Tumwebaze et al., 2022). According to Schaltegger & Wagner (2006), Sustainable Performance is the ability of individuals and groups of individuals to maintain or improve economic, social and environmental performance in the long term.

Based on the above description, sustainable performance is an effort to achieve goals sustainably while considering economic, social, and environmental aspects. Economic, social, and environmental aspects are important aspects that must be considered in sustainable performance. The economic aspect relates to the company's financial and economic performance. The social aspect relates to the company's social aspects, such as relationships with employees, customers, and the community. The environmental aspect relates to the company's environmental aspects, such as the use of natural resources and waste.

Cooperative sustainability indicators which include economic, social and sharia aspects can be understood as an integration of the general theory of cooperative sustainability (Mazzarol et al., 2014, Novkovic, 2008)with sharia principles (Antonio, 2001, and Ascarya, 2011) which specifically applies to Islamic-based cooperatives.

Hypothesis Development

The implementation of green audits serves as an evaluation mechanism that not only emphasizes compliance with environmental regulations but also improves resource efficiency and reporting transparency. According to Devi & Firoz (2025), companies or institutions that integrate environmental responsibility into the audit process have been shown to improve governance and reduce earnings management practices that are detrimental to financial performance. Furthermore, Prasetya et al. (2025) explain that green audit practices foster sustainable competitive advantage, ultimately resulting in increased profitability and operational efficiency. This finding is also supported by Montana et al. (2025), who assert that compliance with environmental standards is a crucial factor in building a positive reputation, thereby attracting the trust of members, investors, and the wider community, all of which contribute to improved financial performance. Therefore, theoretically, there is a strong basis for assuming that the implementation of green audits will have a positive impact on the financial performance of Islamic cooperatives, especially in the context of the green economy era, which demands integration between environmental sustainability and business performance. Based on this description, the following hypothesis is developed:

H_1 : Green Audits have an impact on financial performance.

The implementation of green audits is believed to play a crucial role in ensuring the sustainability of institutions, including Islamic cooperatives. Green audits are not only oriented towards compliance with environmental regulations but also encourage efficient use of resources, transparent reporting, and the application of sustainability principles in organizational governance. According to Mazzarol et al. (2014), cooperative sustainability is determined by the balanced integration of economic, social, and environmental aspects, which can be supported by environmentally sound audit mechanisms. Furthermore, Birchall & Ketilson (2009) emphasize that cooperatives that are able to maintain ethical, transparent, and environmentally conscious business practices have a greater opportunity to maintain long-term sustainability. In the context of Islamic cooperatives, Antonio (2001) states that sustainability is determined not only by economic and social factors, but also by adherence to Islamic principles that emphasize justice, benefit, and environmental responsibility. Ascarya (2012) adds that the application of Islamic principles in business management, including audits, is fundamental to the sustainability of Islamic cooperatives because it provides moral legitimacy and member trust. Goyal & Kumar, (2017) emphasized that green audits are a crucial instrument for achieving long-term sustainability. Clarkson *et al.* (2008) demonstrated that sound environmental reporting is closely linked to sustainability performance. Therefore, theoretically, green audits can be viewed as an instrument positively influencing the sustainability of Islamic cooperatives, as they integrate environmental, economic, social, and Islamic values into the cooperative's long-term strategy. Based on this description, the following hypothesis is developed:

H_2 : Green audits influence the sustainability of Islamic cooperatives.

Financial performance is a fundamental factor in determining the sustainability of a cooperative. According to Hendar & Kusnadi (2017), cooperatives with good financial performance are able to provide sustainable economic services to their members, increase participation, and strengthen competitiveness. This is reinforced by Fahmi (2015), who explains that financial performance indicators such as profitability, liquidity, operational efficiency, and asset growth are closely related to the institution's ability to survive in the long term. From a cooperative sustainability perspective, Birchall & Ketilson (2009) emphasize that cooperatives can only be sustainable if they have a solid economic foundation that supports social and ethical dimensions. Meanwhile, Novkovic (2008) adds that the financial health of cooperatives allows organizations to maintain the values of democracy, solidarity, and social benefit. In the context of sharia cooperatives, Antonio (2001) highlights that financial stability accompanied by adherence to sharia principles will increase moral legitimacy and strengthen business sustainability. Thus, there is a strong theoretical basis for assuming that financial performance has a positive effect on the sustainability of Islamic cooperatives, as sustainability relies not only on social and Islamic aspects but also requires sound financial performance as its primary foundation. Based on this description, the following hypothesis is developed:

H3: Financial performance influences the sustainability of Islamic cooperatives.

According to Devi & Firoz (2025), environmentally oriented audit practices encourage increased efficiency and accountability, which in turn improves an institution's financial performance. Prasetya et al. (2025) also found that environmentally friendly strategies integrated into audit practices can increase competitive advantage and profitability. Furthermore, good financial performance is a crucial factor in supporting cooperative sustainability. Hendar & Kusnadi (2017) explain that financially healthy cooperatives are able to maintain sustainable economic services to members, while Novkovic (2008) adds that financial stability enables cooperatives to maintain social values and solidarity. In the context of sharia cooperatives, Antonio (2001) asserts that sound financial performance that aligns with sharia principles is the foundation of business sustainability. Thus, theoretically, there is a strong basis for suspecting that Green Audit indirectly influences the sustainability of sharia cooperatives through financial performance. This means that green audits play a role in improving cooperative financial performance, which in turn strengthens long-term sustainability from an economic, social, and sharia perspective. Based on this description, the following hypothesis is developed:

H_4 : Green Audit influences the sustainability of sharia cooperatives through financial performance.

METHODOLOGY

Population and Sample

In this study, the population included all managers, supervisors, and employees of Sharia Cooperatives in East Java who have roles or experience in operational activities, internal audits, and strategic decision-making, totaling 724 individuals from 80 Sharia cooperatives in East Java. The sample size was determined using the Slovin formula, resulting in a sample size of 258 individuals.

Operational Definition of Variables

Green audit a systematic, documented, and objective evaluation process conducted by an organization to assess the effectiveness of its environmental policies, programs, and practices, particularly those related to resource efficiency, waste management, emission reduction, and compliance with environmental regulations. Green Audit indicators include compliance with environmental regulations, resource efficiency, and reporting transparency.

Financial performance measures the extent to which a sharia cooperative is able to achieve its financial goals efficiently and effectively within a given period. The indicators used include cooperative profitability, liquidity, operational efficiency, and asset growth.

The sustainability of Sharia Cooperatives is the ability of a Sharia cooperative to maintain its existence, improve its performance, and provide long-term economic, social, and spiritual benefits to its members, while remaining grounded in Sharia principles. The indicators used include economic, social, and Sharia aspects.

The Likert scale is used to measure respondents' perceptions of the indicators of each variable.

Data Analysis Techniques

Descriptive analysis was used to determine the characteristics of respondents and the distribution of research variables, such as Green Audit, financial performance, and sustainability of Islamic cooperatives. Furthermore, to test the influence between variables, a PLS-SEM approach was used with the help of SmartPLS software. This technique was chosen because it can accommodate conceptual models with a complex number of indicators. By using this mixed approach, the research results are expected to provide a comprehensive description of the role of Green Audit in improving the financial performance and sustainability of Islamic cooperatives.

RESULTS AND DISCUSSION

SEM PLS Analysis

The SEM method is an analytical tool used to simultaneously test the relationship between various exogenous and endogenous variables that have several indicators. In this research, SEM data processing techniques based on PLS were used. The use of PLS software in this research was carried out with SmartPLS version 3.0. The PLS analysis process consists of three stages: the outer model analysis stage, the inner model analysis stage, and the hypothesis testing stage (Hussein, 2015). The PLS analysis tested Green Audit, Financial Performance, and Sustainability of Sharia Cooperatives.

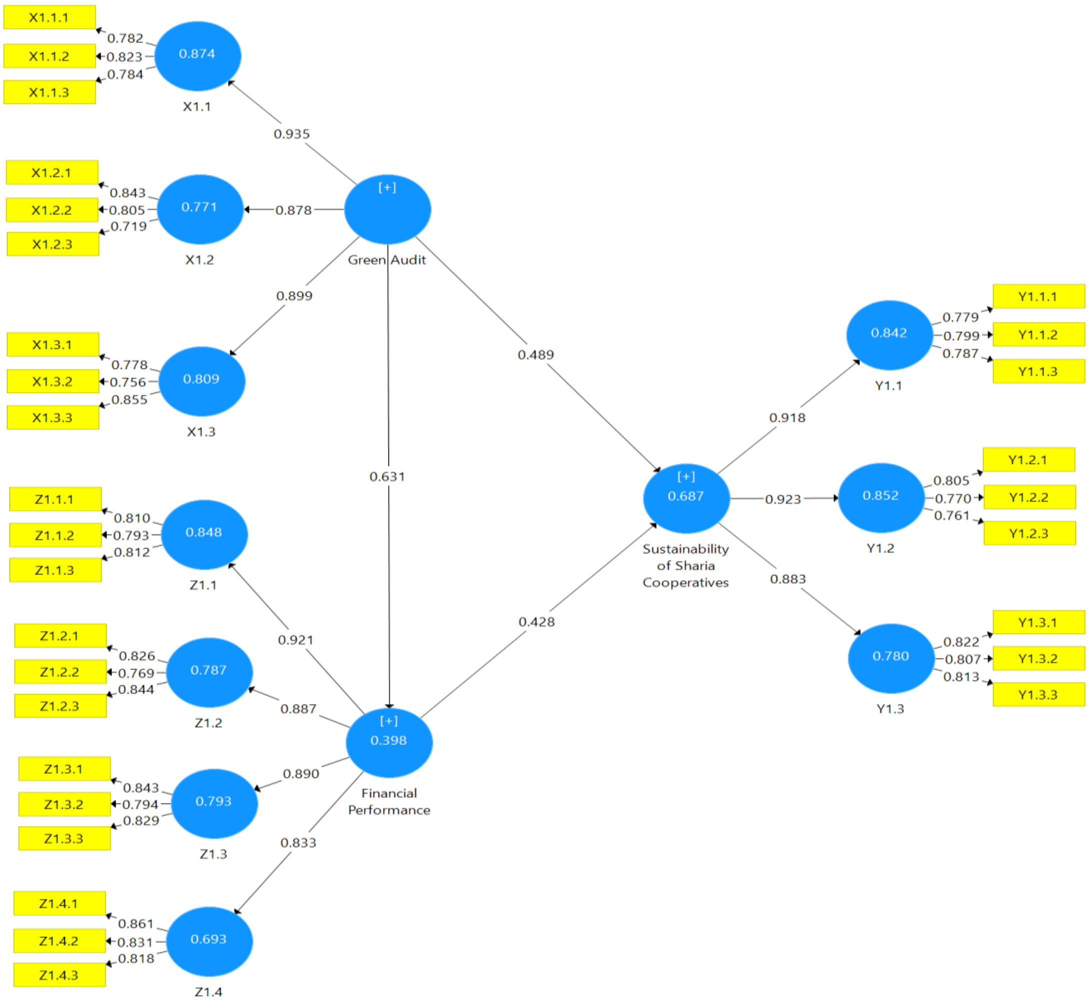

Figure 1. Valid Outer Loading Values of Research Items.
Source: PLS Output, 2025.

Based on Figure 1, the results of the outer loading test indicate that all research items, including the Green Audit, Financial Performance, and Sharia Cooperative Sustainability variables, have good convergent validity, as all values are above the minimum threshold of 0.70. Therefore, the instruments used are worthy of being retained in the research model.

Hypothesis Testing

Hypothesis testing was conducted to evaluate the influence of the Green Audit variable on the Sustainability of Sharia Cooperatives, both directly and indirectly through the mediating variable of Financial Performance. The testing process was conducted using the Partial Least Squares-Structural Equation Modeling (PLS-SEM) approach, taking into account the path coefficient, t-statistic, and p-value.

Table 1. Hypothesis Testing

Hypothesis	Variables	Path coefficients	t- statistics	p-values	Information
H1	Green Audit→ Financial Performance	0.631	16.256	0.000	Significant
H2	Green Audit→ Sustainability of Sharia Cooperatives	0.489	10.551	0.000	Significant
H3	Financial Performance → Sustainability of Sharia Cooperatives	0.428	8.959	0.000	Significant
H4	Green Audit→ Financial Performance → Sustainability of Sharia Cooperatives	0.270	8.063	0.000	Significant

Based on Table 1, it can be explained that the influence of the Green Audit variable on Financial Performance shows a t-statistic value of 16.256 with a p-value of 0.000. Because the t-statistic value (16.256 > 1.96) and p-value (0.000 < 0.05), it can be said that Green Audit has a significant effect on Financial Performance. In addition, the path coefficient value of 0.631 indicates a positive direction of the relationship. Thus, Green Audit has a positive and significant influence on Financial Performance, so that hypothesis 1 is accepted.

Furthermore, the effect of Green Audit on the Sustainability of Sharia Cooperatives has a t-statistic value of 10.551 and a p-value of 0.000, which means that the effect is significant (t-statistics > 1.96 and p-value < 0.05). The path coefficient value of 0.489 indicates a positive effect. Therefore, it can be said that Green Audit has a positive and significant effect on the Sustainability of Sharia Cooperatives, so that hypothesis 2 is accepted.

The influence of financial performance on the sustainability of Islamic cooperatives is indicated by a t-statistic of 8.959 and a p-value of 0.000, indicating statistical significance. The path coefficient of 0.428 indicates a positive influence. Therefore, financial performance has a positive and significant influence on the sustainability of Islamic cooperatives, thus accepting hypothesis 3.

The test of the effect of Green Audit on the Sustainability of Sharia Cooperatives through Financial Performance shows a t-statistic value of 8.063 and a p-value of 0.000, which means the mediation path is significant (t-statistics > 1.96; p-value < 0.05). The path coefficient value of 0.270 indicates that the indirect effect is positive. This means that Green Audit has a positive effect on the Sustainability of Sharia Cooperatives through Financial Performance as a mediating variable. Thus, hypothesis 4 is accepted.

DISCUSSION

The Impact of Green Audit on Financial Performance

Green Audithas a significant effect on financial performance, meaning that improvements in environmental audit practices are directly related to improvements in the financial performance of cooperatives. From a managerial perspective, this confirms the importance of green auditing as a strategic tool to strengthen the stability and profitability of cooperatives. A study of Jordanian Islamic banks showed that the sustainability dimension significantly increased ROA and EPS (Zyadat, 2017), which aligns with your findings. Green Audit implementation often includes extensions in energy savings, waste management, and other resource reductions. These efforts not only create environmental value but also concrete operational cost efficiencies, thereby increasing profit margins. Thus, Green Audit is not merely a formal element but also a practical way to improve financial aspects. This aligns with the finding that green management practices, such as eco-design and green technology, have a positive impact on the financial performance of automotive companies in India (Kour et al., 2020). This shows that environmental audits make a real contribution to the organization's bottom line.

Cooperatives that consistently implement Green Audits tend to gain greater trust from members, regulators, and other business partners. Transparency in environmental reporting and operational accountability strengthen the organization's image as a responsible and ethical institution. This trust can open access to cheaper capital, funding opportunities, and support long-term financial growth. Research on companies with strong ESG performance shows they face lower financing constraints (Zhang & Guo, 2024). This reinforces the importance of Green Audits as a means of strengthening financial legitimacy. In the context of Islamic banking, the implementation of environmentally friendly practices has proven to be a strategic differentiation tool. A comparative study in ASEAN shows that banks that excel in Green Banking and profitability achieve a more competitive position (Alkindi & Utami, 2025). This implies that Green Audits not only improve internal financial performance but also enhance external competitiveness. For Islamic cooperatives, this can be a competitive advantage in attracting members and customers who are selective about sustainability principles.

Green Auditcan improve financial performance through several mechanisms, including operational efficiency, environmental risk reduction, and regulatory adaptation. Environmental audits identify potential risks, such as penalties for environmental violations, so they can be avoided early. Furthermore, sustainable initiatives often receive fiscal incentives and government support that reduce costs. This combination supports improvements in indicators such as Return on Assets (ROA) and Cash Flow. Empirical evidence from the Islamic finance sector also shows that ESG disclosure improves perceptions of financial performance (Shalhoob, 2025). Green audits provide a measurable framework for assessing the effectiveness of environmental practices and green policy implementation. Through these audits, cooperatives can quantitatively measure energy reduction, water efficiency, or waste management. This measurable information is highly useful in financial analysis and strategic decision-making, such as allocating capital to environmentally friendly projects or reducing operational costs. Green audits are often integrated into cooperatives' governance and internal control systems. Adopting environmental audits demonstrates managerial maturity and a commitment to good governance. This is believed to improve financial performance by strengthening risk controls and reducing potential inefficiencies. The literature has shown that green auditing practices influence auditors' opinions and investors' perceptions of company value (Sulistyawati et al., 2025). Thus, auditors and boards view Green Audits as a governance strengthening mechanism that supports financial performance. Globally, regulations related to environmental reporting (such as the ISSB and the EU's CSRD) are increasingly stringent, and Green Audits serve as a bridge for organizations to comply with these standards. Cooperatives that have conducted environmental audits are better prepared to face evolving reporting obligations and carbon regulations. This adaptability supports operational stability and mitigates litigation costs or penalties that could negatively impact financial performance. In short, Green Audits are not only a localized effect but also a hedge against global risks.

The Influence of Green Audit on the Sustainability of Sharia Cooperatives

Green Audithas a significant impact on improving the sustainability of Sharia Cooperatives, meaning that Green Audit helps cooperatives optimize resource use, reduce waste, and implement environmentally friendly technologies, ultimately lowering long-term operational costs. This aligns with sharia principles that prohibit israf (waste) and emphasize efficiency in managing trusts. From a strategic aspect, Green Audit positions sharia cooperatives as institutions that not only care about the economic welfare of members but also contribute to environmental preservation, thereby enhancing the cooperative's reputation and attractiveness to stakeholders who are increasingly aware of sustainability issues. By evaluating energy use, waste management, and regulatory compliance, cooperatives are able to minimize negative impacts on the environment. This increases member and community confidence that the cooperative is committed to the principle of sustainability. In the context of sharia, this aligns with the principle of preserving nature. The study Goyal & Kumar, (2017) emphasized that Green Audit is an important instrument for achieving long-term sustainability.

The sustainability of Islamic cooperatives is not only about profitability, but also about balancing economic, social, and environmental aspects. Green Audits help cooperatives identify potential inefficiencies and environmental risks that could disrupt business continuity. This allows cooperatives to implement strategic improvements to remain competitive while contributing to the environment. Transparency in reporting audit results also increases cooperative accountability to stakeholders. Clarkson et al. (2008) shows that good environmental reporting is closely related to sustainability performance.

The implementation of Green Audits also strengthens the social legitimacy of Islamic cooperatives. When cooperatives are transparent about their natural resource management and renewable energy use, the public will perceive them as having integrity and moral responsibility. This social legitimacy is crucial because the existence of Islamic cooperatives rests on the trust of their members and the community. O'Donovan (2002) explains that environmental disclosure is an effective legitimacy strategy. Thus, green audits support the cooperative's image as an ethical and sustainable entity.

Green AuditHelping Islamic cooperatives identify new green economy-based business opportunities. For example, cooperatives can develop environmentally friendly products, recycling services, or clean energy-based services. This not only increases competitiveness but also supports the Sustainable Development Goals (SDGs). Schaltegger & Wagner (2006) emphasized that well-managed sustainability can enhance competitive advantage. Therefore, green audits serve a dual function as an evaluation tool and a driver of business innovation. From a governance perspective, Green Audits strengthen the principles of transparency and accountability within Islamic cooperatives. With an environmental audit mechanism, sustainability reports published by cooperatives are more credible. This transparency enhances member participation in decision-making, as they receive clear information regarding the environmental impact of cooperative activities. Eccles et al. (2014) stated that sustainability has a positive impact on organizational processes through good governance. Thus, Green Audits strengthen the governance structure of Islamic cooperatives to make them more inclusive and participatory.

Green AuditIt also promotes operational efficiency, which impacts sustainability. Audits reveal areas of energy waste or inefficient use of raw materials, enabling cooperatives to achieve cost savings. These savings support financial stability while reducing environmental impact. This aligns with the principle of efficiency in Islamic economics, which rejects wasteful practices. Herbohn (2005) demonstrated that environmental accounting can help organizations identify cost-efficiency opportunities. The sustainability of Islamic cooperatives is also assured through an enhanced reputation resulting from the implementation of Green Audits. A positive reputation helps cooperatives gain support from regulators, the community, and social investors. This reputation strengthens the cooperative's position as an Islamic financial institution that consistently adheres to the principles of maqashid sharia. Morsing & Schultz (2006) emphasized that effective communication of social responsibility strengthens an organization's positive image. Thus, Green Audits are not merely a technical tool but also a reputational strategy.

Green Auditprovides long-term benefits in maintaining the resilience of Islamic cooperatives in the face of changing environmental regulations. As global attention to environmental issues increases, regulations will become stricter. Cooperatives that implement green audits early will be better prepared to adapt. This reduces the risk of legal sanctions or high compliance costs in the future. Hahn & Kühnen (2013) emphasize that sustainability reporting helps companies be more adaptive to regulatory dynamics. From a sharia perspective, Green Audits contribute to the achievement of spiritual and social sustainability values. These audits ensure that Islamic cooperatives not only seek profit but also uphold God's mandate to preserve the earth. This spiritual sustainability strengthens the cooperative's identity as a financial institution based on Islamic ethics. Mardiasmo (2016) explains that public accountability in Islamic financial institutions must include social responsibility. Therefore, green audits serve as an instrument to strengthen Islamic values in cooperative practices. Thus, Green Audits have proven to play a significant role in promoting the sustainability of Islamic cooperatives. These audits improve efficiency, reputation, legitimacy, innovation, and regulatory compliance. Achieved sustainability provides not only economic benefits but also social, environmental, and spiritual benefits. Thus, Islamic cooperatives can grow in tandem with the green economy principles being developed in the modern era. Al-Tuwaijri et al. (2004) emphasized that there is a close relationship between environmental performance, reporting, and economic performance, which strengthens organizational sustainability.

The Influence of Financial Performance on the Sustainability of Sharia Cooperatives

Financial performance significantly influences the sustainability of Islamic cooperatives, demonstrating that sound financial performance is a crucial foundation for their sustainability. When a cooperative is able to generate profits and maintain positive cash flow, operations can continue sustainably. This condition enables the cooperative to meet its short-term and long-term obligations. According to Mardiasmo (2016), healthy financial performance reflects the effectiveness and efficiency in managing resources. Therefore, the sustainability of Islamic cooperatives is strongly influenced by the stability of their financial performance. Strong financial performance allows Islamic cooperatives to allocate greater funds for business development. The resulting surplus can be used for product innovation, service diversification, or expanding business networks. This ultimately increases the cooperative's long-term competitiveness. According to Brigham & Houston (2019), companies with strong financial performance tend to be more resilient to external risks. Thus, the sustainability of Islamic cooperatives is further assured. The ability of Islamic cooperatives to maintain liquidity is also a crucial aspect of financial performance. Adequate liquidity allows cooperatives to meet the needs of their members without experiencing financial difficulties. According to Kasmir (2016), a healthy liquidity ratio reflects an entity's ability to maintain operational stability. Maintaining liquidity increases cooperative members' confidence in the organization's sustainability. Therefore, strong liquidity contributes to the sustainability of Islamic cooperatives.

Profitability, as an indicator of financial performance, also determines the sustainability of Islamic cooperatives. The higher the level of profitability, the greater the cooperative's chances of survival and growth.

Profits can be allocated to increase working capital and member empowerment programs. According to Harahap (2015), profitability reflects the effectiveness of financial management in generating profits. Therefore, good profitability strengthens the sustainability aspect of cooperatives. Good financial performance also impacts the reputation of Islamic cooperatives among stakeholders. Transparent and sound financial reports increase the trust of members, prospective members, and partner institutions. According to Gunawan (2015), organizational sustainability is greatly influenced by the level of public trust. As trust increases, external support also increases. This makes it easier for Islamic cooperatives to achieve sustainability.

The sustainability of Islamic cooperatives is determined not only by short-term profits but also by their ability to maintain long-term growth. Consistent financial performance helps cooperatives develop sustainable expansion strategies. According to Kaplan & Norton (1996), organizational sustainability can be seen from the balance between financial and non-financial objectives. This means that sustainability is achieved through financial stability that supports innovation and member service. Therefore, financial performance is a key prerequisite for the sustainability of Islamic cooperatives. Healthy financial performance enables Islamic cooperatives to disburse more social benefits. As institutions based on Islamic values, Islamic cooperatives pursue not only profit but also the blessings and welfare of their members. According to Antonio (2001), Islamic principles emphasize a balance between economic and social objectives. With strong finances, cooperatives can provide broader financing and social programs for the community. This strengthens the cooperative's sustainability in both spiritual and social dimensions. In addition to profitability, cost efficiency is also an aspect of financial performance that influences sustainability. The more efficient cost management, the greater the cooperative's chances of surviving amidst competition. According to Hansen & Mowen (2018), cost efficiency is a crucial strategy for maintaining long-term competitiveness. Through efficiency, Islamic cooperatives can provide services at affordable prices. This increases member loyalty and strengthens sustainability. Financial performance is also related to the cooperative's ability to access external financing. Cooperatives that demonstrate good performance more easily obtain capital support from financial institutions. According to Sartono (2012), the credibility of financial reports is one of the primary considerations for lending institutions. This access to financing is crucial to support the sustainability of Islamic cooperatives, particularly in business expansion. Therefore, financial performance serves as a bridge to sustainability. Good financial performance ensures that Islamic cooperatives remain relevant and competitive amid market dynamics. Sustainability means not only surviving but also growing in accordance with Islamic principles and the needs of members. According to Elkington (1998) sustainability encompasses economic, social, and environmental dimensions. In the context of Islamic cooperatives, the economic dimension is significantly influenced by strong financial performance. Therefore, financial performance has been shown to play a significant role in ensuring the sustainability of Islamic cooperatives.

The Influence of Green Audit on the Sustainability of Sharia Cooperatives Through Financial Performance

Green Audithas a significant influence on the sustainability of Sharia Cooperatives through financial performance, meaning that the Green Audit implemented in Sharia cooperatives can strengthen sustainability aspects by improving financial performance. This audit encourages efficient use of resources, reduces waste, and reduces operational costs. When costs decrease, profitability increases, so cooperatives are better able to maintain their business sustainability. This shows that sustainability practices not only impact environmental aspects but also economic aspects that support long-term operations. Thus, the sustainability of Sharia cooperatives can be achieved through improved financial performance based on environmentally friendly audit practices.

The implementation of Green Audits provides transparency in cooperative financial management. This transparency increases member and stakeholder trust in the institution's performance. Increased trust leads to member loyalty, which in turn strengthens the cooperative's capital base. A healthier financial performance will help cooperatives face economic and regulatory challenges. Therefore, the sustainability of cooperatives is inextricably linked to the successful implementation of Green Audits, which are integrated with their financial performance. Green Audits also encourage good governance practices in sharia cooperatives. This good governance ensures that all financial activities and investments are conducted responsibly. These practices reduce financial risks, minimize potential conflicts, and increase the efficiency of fund management. With improved and stable financial performance, sharia cooperatives can continue to survive in the long term. This demonstrates that Green Audits are a crucial factor in building the sustainability of sharia-based institutions.

Improved financial performance through a Green Audit can expand cooperatives' access to sustainable financing. Many financial institutions now require the implementation of environmentally friendly practices as an indicator of loan eligibility. Therefore, Sharia cooperatives that have completed a Green Audit have easier access to additional funding. This financing access can be used for business development that supports sustainability. Therefore, the financial performance mediation channel becomes a crucial bridge between the Green Audit and cooperative sustainability. Furthermore, the Green Audit improves energy efficiency and waste management, which directly impacts cost savings. These operational cost savings improve cooperatives' profit margins. This increased margin allows funds to be allocated to sustainability programs, such as member training or green product innovation. Thus, cooperatives not only benefit financially but also strengthen their social and environmental aspects. The sustainability of Sharia cooperatives is ultimately achieved holistically.

The sustainability of Islamic cooperatives is also linked to a good reputation in the eyes of the public. Green Audits help build a positive image for cooperatives, demonstrating their perceived environmental concern and financial accountability. This positive reputation attracts new members and strengthens the loyalty of existing members. Consequently, the cooperative's financial performance improves through growth in capital participation and member savings. Ultimately, a good reputation supports the cooperative's long-term sustainability.

Green AuditIndirectly, it also supports innovation in the operations of Islamic cooperatives. By adopting principles of efficiency and sustainability, cooperatives are encouraged to find new ways to manage financial resources. This innovation strengthens competitiveness and ensures business continuity in the face of market changes. Improved financial performance will support the cooperative's sustainability through greater adaptive capacity. Therefore, the relationship between Green Audit, financial performance, and sustainability is mutually reinforcing.

Furthermore, the implementation of Green Audit plays a role in mitigating legal risks and regulatory compliance. Cooperatives that adhere to green audit principles are better prepared to face environmental or financial policies. This prevents sanctions that could burden the cooperative's finances. By reducing these risks, the cooperative's financial performance is maintained and contributes to the institution's sustainability. This means that Green Audit serves not only as an evaluation tool but also as a risk mitigation strategy. The positive influence between Green Audit and sustainability through financial performance also demonstrates alignment with Sharia principles. In Islam, business sustainability is assessed not only by financial profit but also by social benefits and environmental sustainability. Green Audit serves as a practical instrument to ensure this alignment is achieved. Healthy financial performance serves as concrete evidence of the success of cooperative management in accordance with Sharia and sustainability. Thus, the financial performance mediation pathway further emphasizes the values of justice and welfare.

Overall, Green Audit has been shown to have a positive impact on the sustainability of Islamic cooperatives through financial performance. This mediation pathway demonstrates that sustainability cannot be achieved solely through environmentally friendly practices without strong financial performance. Financial performance serves as the foundation that connects Green Audit practices to the achievement of the cooperative's long-term goals. Therefore, Islamic cooperatives need to balance green audit aspects with strategies to improve financial performance. The combination of the two will lead the cooperative towards strong sustainability and high competitiveness.

CONCLUSION AND DISCUSSION

Based on the analysis conducted in this study, the following conclusions can be drawn: Green Audit has a significant impact on Financial Performance. This indicates that the implementation of environmental audits in Islamic cooperatives can improve the efficiency of resource use, reduce operational costs, and strengthen accountability. Thus, the better the Green Audit practice, the more optimal the cooperative's financial performance. Green Audit has a significant impact on the Sustainability of Islamic Cooperatives. This means that cooperative compliance with environmental regulations, reporting transparency, and resource efficiency can strengthen the cooperative's competitiveness in a sustainable manner. The implementation of environmental audits supports cooperatives in maintaining their reputation and increasing the trust of members and stakeholders. Financial Performance has been proven to have a significant impact on the Sustainability of Islamic Cooperatives. Healthy financial conditions, such as good profitability and liquidity, are an important foundation for cooperatives to be able to consistently implement sustainable programs. Thus, the better the financial performance, the higher the level of sustainability of Islamic cooperatives. Green Audit also has a significant impact on the Sustainability of Islamic Cooperatives through Financial Performance. This means that good environmental audit practices not only directly support sustainability but also improve it through improving financial performance. With this mediating role, Green Audit can be seen as a strategic instrument in integrating financial aspects with the sustainability principles of sharia cooperatives.

Based on the conclusions outlined above, the following recommendations are provided: Sharia cooperatives need to systematically strengthen the implementation of Green Audits, for example by establishing internal environmental audit standards that align with government regulations, thereby improving financial performance while strengthening sustainability. Cooperative management is advised to be more transparent in preparing sustainability reports that cover financial, social, and environmental aspects. This will increase member trust and expand cooperative access to funding sources oriented towards sustainability principles. Regulators and the government need to provide support in the form of regulations, training, and incentives for Sharia cooperatives that consistently implement Green Audits. This step will encourage cooperatives to be more adaptive to changes in the business environment and sustainability demands. For future researchers, it is recommended to expand the research model by adding other variables such as managerial innovation, sharia governance, or member financial literacy. This can provide a more comprehensive picture of the determinants of the sustainability of Sharia cooperatives.

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