

THE EFFECT OF ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) ON CORPORATE PERFORMANCE WITH ENTERPRISE RISK MANAGEMENT (ERM) AS A MEDIATING VARIABLE

Nur Azizah¹⁾, Suwarno²⁾

¹Muhammadiyah University of Gresik (UMG)

²Muhammadiyah University of Gresik (UMG)

E-mail: nurazizahzah25@gmail.com, suwarno@umg.ac.id

Abstract: *This study investigates how ESG practices relate to corporate outcomes, while considering ERM as a potential mediating construct within manufacturing firms listed on the Indonesia Stock Exchange between 2022 and 2024. Employing a quantitative approach and drawing upon secondary data from publicly available corporate disclosures, the analysis demonstrates that ESG engagement does not translate into a direct enhancement of firm performance. Interestingly, the evidence points to a negative and statistically significant association between ESG and ERM, suggesting that ESG adoption may substitute for certain non-financial risk management functions rather than complement them. Further examination indicates that ERM itself exerts no meaningful influence on performance and fails to operate as a mediating pathway between ESG and corporate outcomes. Viewed through the perspective of stakeholder theory, these findings imply that the effects of ESG and ERM on performance are contingent upon organizational characteristics and contextual dynamics rather than producing immediate or uniform benefits. Collectively, the results underscore the intricate challenges of integrating sustainability initiatives with risk governance frameworks in order to generate performance advantages within emerging market environments.*

Keywords: *ESG, ERM, Corporate Performance, Stakeholder Theory*

1. Introduction

While industrialization has historically underpinned global economic expansion, it has simultaneously accelerated ecological deterioration, manifested in escalating greenhouse gas emissions, widespread deforestation, and severe air and water contamination that destabilize natural systems (Naidoo, 2022). These ecological disruptions extend beyond the environment, producing significant social repercussions such as heightened public health vulnerabilities, inequitable distribution of natural resources, and community-level disputes over environmental burdens (Stern, 2018). From the perspective of economic performance, such negative externalities translate into considerable financial liabilities for firms, including the costs of environmental restoration, reduced workforce efficiency, and persistent fiscal setbacks (Aydoğmuş et al., 2022). Consequently, the mounting pressures of sustainability have prompted investors, policymakers, and other stakeholders to insist that corporations integrate

environmental and social considerations into their strategic agendas, rather than focusing exclusively on conventional financial outcomes (Xu & Zhu, 2024).

Against mounting sustainability pressures, ESG initiatives have become a prominent vehicle through which corporations articulate their commitment to ethical and responsible business practices. Stakeholder Theory provides a useful lens for interpreting this shift, as it emphasizes that corporate accountability is not confined to maximizing shareholder returns but must also encompass the expectations of employees, consumers, local communities, regulatory bodies, and the broader ecological system (Freeman, 1984). Organizations that succeed in balancing these diverse stakeholder interests tend to cultivate legitimacy and trust, thereby securing enduring support that underpins long-term value generation. Within this context, ESG integration is increasingly recognized as a strategic instrument: it strengthens reputational capital, reduces exposure to non-financial risks, and, in many cases, contributes positively to overall corporate performance (Talan, 2024).

The empirical literature examining the nexus between ESG practices and firm performance yields divergent conclusions. A stream of research highlights beneficial outcomes, arguing that robust ESG engagement can foster greater operational efficiency, facilitate access to external financing, and ultimately reinforce financial stability (Alareeni & Hamdan, 2020; Nguyen et al., 2022; Zhang et al., 2023). In contrast, other scholars identify negligible or even adverse effects, particularly on profitability measures such as ROA and ROE. These studies often attribute the weaker performance to the considerable expenditures and resource allocations required for ESG implementation, which may weigh heavily on firms in the short run (del Mar Miralles-Quirós et al., 2019; Nareswari et al., 2023). Taken together, the evidence suggests that the impact of ESG on corporate outcomes is not uniform but contingent upon contextual conditions and mediated by complex organizational processes.

ERM has increasingly been highlighted in recent scholarship as a possible channel through which firms can navigate the sustainability–performance relationship. Conceptually, ERM constitutes a holistic system designed to identify, evaluate, and control risks across organizational functions ((COSO), 2017). Evidence from prior research indicates that such an integrated approach may bolster corporate outcomes by enhancing the quality of strategic choices, increasing transparency in risk exposure, and optimizing the allocation of resources. Within the sustainability domain, ERM is often viewed as complementary to ESG practices, as it provides a structured mechanism for embedding environmental, social, and governance concerns into formal risk management processes. Yet, empirical investigations into this linkage remain inconclusive. While some studies demonstrate that ERM amplifies the beneficial effects of ESG on firm value and financial performance (Beasley et al., 2023; Chairani & Siregar, 2021), others contend that ESG adoption can displace or diminish conventional risk management functions, thereby limiting the incremental role of ERM (Karina et al., 2023).

Although scholarship on ESG and ERM has expanded considerably, notable gaps persist. Much of the existing empirical work has concentrated on advanced economies, leaving evidence from emerging contexts such as Indonesia relatively underexplored. Moreover, prior studies frequently presuppose that ESG practices operate in tandem with ERM, reinforcing its role, while giving limited attention to the possibility that sustainability initiatives may substitute for, rather than complement, formalized risk management systems. As a result, the precise mediating function of ERM in shaping the ESG performance linkage remains ambiguous and warrants further investigation.

In light of the identified research gaps, the present study explores how ESG practices shape corporate performance, with ERM positioned as a potential mediating construct. The

empirical setting focuses on manufacturing firms listed on the Indonesia Stock Exchange over the 2022–2024 period. More specifically, the investigation is designed to assess three dimensions: first, whether ESG initiatives exert a direct influence on firm performance; second, the extent to which ESG engagement affects the adoption and implementation of ERM; and third, whether ERM operates as an intermediary mechanism in the ESG performance linkage.

This research advances the literature in several important respects. To begin with, it broadens the scope of ESG–ERM scholarship by presenting empirical insights from an emerging market setting, where institutional arrangements and sustainability practices diverge considerably from those observed in advanced economies. In addition, the study introduces a more refined perspective by interrogating the possibility that ESG initiatives may act as substitutes for ERM, challenging the prevailing assumption of a strictly complementary relationship. Lastly, by situating the analysis within the framework of Stakeholder Theory, the investigation deepens theoretical understanding of the ways in which sustainability strategies and risk governance mechanisms interact to influence corporate performance.

2. Literature Review and Hypothesis Development

Stakeholder Theory

Stakeholder theory focuses on the strategic issue of how firms manage relationships with parties that have an interest in their activities. Organizations are required to acknowledge the significance of stakeholders and proactively deliver value to them, as stakeholders both influence and are influenced by corporate decisions and operational policies (Freeman et al., 2020). Given that stakeholders possess the ability to control and affect a firm's operational resources, their level of power plays a crucial role in determining organizational success (Halizah & Suwarno, 2023). Stakeholder support, whether through investment contributions or equity participation, is expected to improve firm performance by strengthening operational capacity. Additionally, collaboration with stakeholders in the utilization of corporate products further enables firms to achieve targeted profitability (Martha & Khomsiyah, 2023). Within this framework, stakeholder theory underscores the necessity for companies to accommodate stakeholder interests through the adoption of ESG practices, which signal accountability and responsiveness to societal expectations, thereby reinforcing corporate legitimacy, reputation, and long-term performance sustainability (Talan, 2024).

The Influence of ESG on Corporate Performance

ESG functions as a framework for assessing how firms manage governance, social, and environmental dimensions in pursuit of sustainable value creation. Stakeholder theory suggests that the adoption of ESG practices allows organizations to respond more effectively to the interests of various stakeholder groups, which in turn enhances organizational credibility and stakeholder trust (Freeman, 1984). Firms that emphasize employee welfare, maintain strong community engagement, and manage supply chains responsibly are more likely to obtain stakeholder support, which can enhance brand value and positively affect financial outcomes (Waddock & Graves, 1997). Consequently, ESG implementation contributes to improved firm performance, encompassing profitability, market valuation, and operational efficiency. Empirical evidence supports this relationship. In their study (Fu & Li, 2023) provide empirical evidence that ESG disclosure contributes positively to firm value and corporate performance among firms operating in Indonesia and China. In addition, research by (Özer et al., 2023) report that stronger ESG performance is significantly linked to superior financial outcomes, particularly through environmental initiatives that improve energy efficiency and lower

operational costs. Drawing on these empirical findings and grounded in stakeholder theory, this study formulates the following hypothesis:

H1: ESG has a positive effect on corporate performance

The Role of ERM in Mediating ESG Factors on Corporate Performance

ERM can act as a mediator in the interaction between ESG and business performance. It is an integrated method for discovering, evaluating, and managing risks across an organization (COSO), 2017). When effectively implemented, it signals managerial competence in navigating uncertainty and capitalizing on emerging opportunities, thereby improving operational effectiveness and strengthening overall corporate outcomes. Within the sustainability domain, ERM provides a structured approach for translating ESG related exposures into measurable and actionable risk management processes, which can render sustainability initiatives more coherent and durable. Nevertheless, stakeholder theory cautions that ESG engagement may also generate tensions, as managerial attention to diverse stakeholder demands does not always coincide with shareholder priorities (Freeman, 1984). Empirical investigations lend partial support to ERM's mediating role (Beasley et al., 2023) for instance, show that integrated risk management systems enhance ROA, reinforcing the positive linkage between ESG adoption and firm value. Complementary evidence from panel data on U.S. corporations further indicates that ERM can magnify the financial benefits of ESG initiatives. Yet, despite these contributions, the broader literature remains divided, with findings that vary across contexts and methodologies, leaving the precise role of ERM in the ESG performance nexus unsettled. Viewed through a causal lens, ESG practices have the potential to reshape the functioning of ERM by altering governance arrangements, refining risk identification procedures, and influencing strategic choices. The adoption of ESG obliges firms to evaluate a broad spectrum of exposures including regulatory, reputational, and operational dimensions thereby extending organizational risk awareness beyond conventional financial concerns. In doing so, ESG implementation fosters greater transparency, accountability, and stakeholder involvement, all of which are integral to the effectiveness of ERM systems. This integration allows sustainability-related risk information to be embedded within formalized risk management structures, enabling firms to coordinate responses more systematically and align sustainability imperatives with risk governance processes. At the same time, ESG engagement may itself mitigate non-financial risks through sustainability-oriented practices, which in certain circumstances can diminish reliance on formal ERM mechanisms. Taken together, these dual pathways provide a compelling theoretical rationale for conceptualizing ERM as a mediating construct in the ESG performance relationship. Building on this reasoning, the present study advances the following secondary hypothesis

H2: ERM has a mediating effect on the relationship between ESG and Corporate Performance.

3. Research Method

Sample and Population

Using a descriptive quantitative framework, this research focuses on manufacturing firms that were publicly listed on the Indonesia Stock Exchange (IDX) between 2022 and 2024. To ensure the relevance and specificity of the data collected, a purposive sampling technique was utilized. This method allows for the selection of subjects based on predetermined criteria aligned with the objectives of the research. The established criteria for inclusion in this study were: (1) being a manufacturing company publicly listed on the IDX during the specified

timeframe, (2) having published comprehensive annual reports and sustainability reports, and (3) possessing the necessary data pertinent to the research variables.

For the purposes of data analysis, this research applies Partial Least Squares–Structural Equation Modeling (PLS-SEM) as the principal methodological tool. The choice of PLS-SEM is justified by the exploratory orientation of the study, the inclusion of a mediating construct, and the moderate size of the sample under investigation. This technique allows for the simultaneous estimation of both direct and indirect associations among latent variables, while avoiding the restrictive assumption of multivariate normality. The analytical procedures were executed using SmartPLS, a software package that supports path modeling, bootstrapping for statistical inference, and robustness checks specifically tailored to mediation analysis.

Measurement of Variables

Corporate Performance

Three primary metrics are used in this study to assess corporate performance: ROA, Tobin's Q, and PBV. In addition to representing the market's assessment of the company's success and future potential, the three ratios offered help to clarify a company's ability to make money off of its assets. These indicators are necessary for a thorough examination of investor confidence and financial health (Alsmady, 2022; Branch, 2014; Li et al., 2015; Lim, 2023)

ESG

According to the rules established by the Global Reporting Initiative (GRI) in 2021, ESG indicators are recorded and evaluated. The GRI Standards provide measurable indicators for three main dimensions, namely environmental (GRI 302, 303, 305, 306), social (GRI 403, 404, 413), and governance (GRI 205, 419). Previous research has made extensive use of the GRI, which is widely regarded as a method that may provide an objective picture of the sustainability performance of a corporation (Hąbek & Wolniak, 2016; Kaur & Lodhia, 2018; Manes-Rossi et al., 2018).

ERM

This study adopts an ERM measurement framework based on the COSO ERM Framework, comprising eight dimensions and 108 assessment criteria. ERM effectiveness is evaluated by examining both the existence and the operational performance of the eight COSO ERM components. The utilization of this approach makes it possible to conduct an all-encompassing evaluation of the strength and practical efficacy of the ERM implementation within the organization (Bediako, 2014). Each element of the ERM disclosure will be assigned a score of 1 if it is disclosed and 0 if it is not disclosed. The scores for each element will be totaled to calculate each company's overall disclosure score. The ERM measurement index is determined using the following formula:

$$ERMDI = \frac{\sum_{ij} Ditem}{\sum_{ij} ADitem}$$

Keterangan:

ERMDI : ERM Disclosure Index

$\sum_{ij} Ditem$: Total disclosed ERM item score

$\sum_{ij} ADitem$: Total ERM items that should be disclosed

Table 1. Measurement of Variables in Research

Variables	Measurement
Dependent Variable	
ROA	Firm profitability, as reflected by ROA, represents the proportion of net income generated from total assets.
Tobin's Q	Tobin's Q, which compares a firm's market valuation to its asset base, is computed by adding the market value of equity to the book value of total debt and scaling the sum by total assets, thereby serving as an indicator for investment and valuation considerations.
PBV	The price-to-book ratio is determined by dividing the market price of an individual share by its book value.
Independent Variable	
Global Reporting Initiative (GRI) Standards 2021	The GRI Standards provide measurable indicators for three key dimensions: environmental, social, and governance. Each indicator is scored 1 if disclosed and 0 if not disclosed.
Mediating Variable	
ERM Measurement based on the COSO ERM Framework	This research utilizes eight dimensions and 108 criteria derived from the COSO ERM Framework. Each item related to ERM disclosure will receive a score of 1 for being disclosed and 0 for not being disclosed. The individual scores will be summed to calculate the overall disclosure score for each organization.

Data source: processed 2025

4. Result and Discussion

Descriptive Statistics of the Research

The table below displays the descriptive statistics for this analysis, which is based on 100 samples of firms listed on the Indonesia Stock Exchange (IDX) over a given period of time:

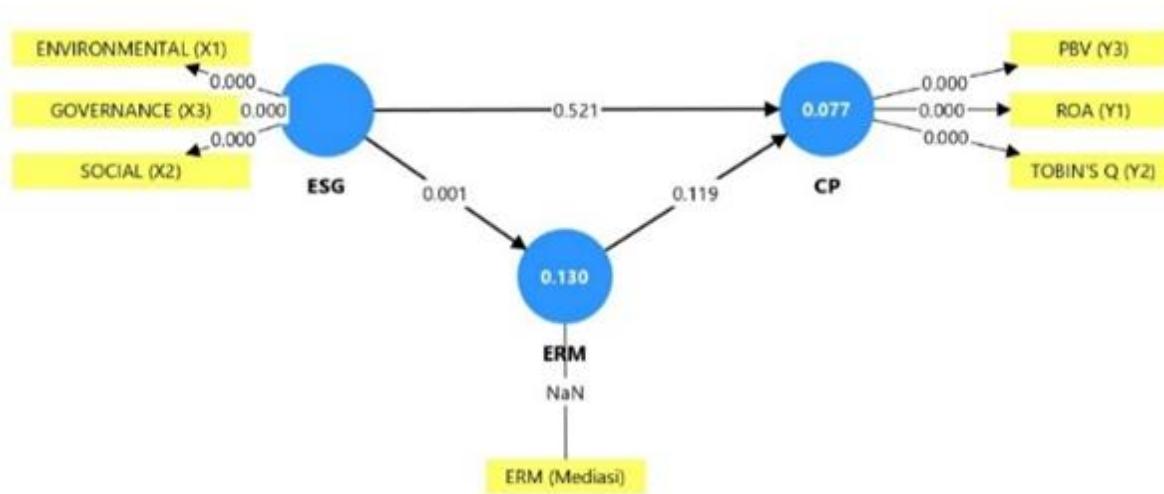
Table 2. Descriptive Statistics Results

	Minimum	Std. Deviation
ENVIRONMENTAL	0,03	0,26326
SOCIAL	0,17	0,20599
GOVERNANCE	0,43	0,16399
ROA	0,00	0,05038
TOBIN'S Q	0,04	0,65599
PBV	0,05	1,32536
ERM	0,64	0,05620

Data source: processed 2025

Based on Table 2 of descriptive statistics, the minimum value for each ESG dimension shows the lowest score recorded in the observation data, namely 0.03 for Environment, 0.17 for Social, and 0.43 for Governance. Meanwhile, the standard deviation describes the level of dispersion or diversity of values for each ESG dimension around its mean value, with a magnitude of 0.26326 for Environment, 0.20599 for Social, and 0.16399 for Governance.

Path analysis results



Data Source: processes 2025

The path coefficient results indicate that ESG has a coefficient of 0.521 in relation to Corporate Performance, whereas its association with ERM is reflected by a coefficient of 0.001. Within the structural model, ERM exhibits an indirect effect of 0.202 in the ESG–corporate performance relationship, while its direct association with corporate performance is reflected by a coefficient of 0.119. Collectively, these coefficients illustrate the explanatory strength of the proposed model.

Table 3. Hypothesis Test Results

Original Sample (o)	T statistics	P values	conclusion
ESG -> CP	-0,122	0,641	0,521
ESG -> ERM		3,463	0,001 negative
ERM-> CP	0,210	1,557	0,119 Not significant
ESG -> ERM -> CP	-0,075	1,275	0,202 Not significant

Data source: processed 2025

Different patterns of relationship among the variables under investigation are indicated by the structural model estimation. The empirical results indicate that ESG does not exhibit a statistically significant association with corporate performance, as reflected by a coefficient of -0.122 and a p-value of 0.521 . In contrast, ESG demonstrates a significant negative relationship with ERM, indicated by a coefficient of -0.360 and a p-value of 0.001 . Although ERM shows a positive coefficient of 0.210 in relation to corporate performance, this effect is not statistically supported given a p-value of 0.119 . Consistent with these findings, the indirect effect of ESG on corporate performance through ERM is also insignificant, as evidenced by an estimated coefficient of -0.075 and a p-value of 0.202 .

R Square

Tabel 4. R square

	R Square
Corporate Performance	0,077

Data source: processed 2025

The coefficient of determination shows that the suggested model's capacity to explain corporate performance is constrained. An R-square of 0.077 indicates that the model captures only a small share of the variation in corporate performance, with the remaining variance largely attributable to unobserved factors. Consistently, the Adjusted R-square value of 0.058 reflects the limited explanatory contribution of the independent variables. Overall, these results imply that Corporate Performance is largely influenced by other determinants beyond those specified in the current research framework.

The relatively low R-square value indicates that the explanatory power of the proposed model is limited, suggesting that ESG and ERM account for only a modest proportion of the variation in corporate performance. This finding implies that corporate performance is influenced by a broader set of factors beyond sustainability practices and formal risk management frameworks, such as market competition, firm size, ownership structure, operational efficiency, and macroeconomic conditions. In the context of emerging markets, where institutional environments and sustainability maturity vary considerably across firms, it is reasonable to expect that ESG-related mechanisms do not uniformly translate into performance outcomes. Therefore, the low R-square does not necessarily weaken the validity

of the model but rather highlights the complexity of corporate performance determinants and the need for a more comprehensive analytical framework in future research.

Robustness Test

The robustness analysis indicates that the estimated models yield consistent relational patterns among the examined variables, regardless of whether firm performance is represented by ROA or firm value is captured using PBV and Tobin's Q. While none of the direct or mediated relationships involving ERM reach statistical significance ($p\text{-value} > 0.05$), the estimated coefficients exhibit a stable directional tendency across all specifications. Specifically, the indirect influence of ESG on corporate performance and enterprise valuation via ERM is typified by negative coefficient indications within the models predicated on ROA and PBV. In contrast, the Tobin's Q specification generates positive yet marginal coefficients. Despite these variations, all indirect effects remain statistically insignificant, indicating that the choice of proxy does not substantively influence the structural interpretation of the model. Overall, these findings suggest that substituting alternative indicators of firm performance and firm value does not lead to meaningful changes in the directional dynamics among the constructs. Therefore, although ERM fails to demonstrate a significant mediating role, the consistency of coefficient directions across multiple model estimations reinforces the robustness and internal stability of the proposed research framework.

The robustness test constitutes an important contribution of this study by demonstrating the stability and internal consistency of the proposed model across alternative proxies of corporate performance. Although the estimated relationships remain statistically insignificant, the consistency of coefficient directions across ROA, PBV, and Tobin's Q indicates that the structural relationships are not sensitive to measurement choices. This stability enhances confidence in the reliability of the empirical findings and suggests that the observed patterns are not driven by model specification bias or indicator selection. Consequently, the robustness analysis strengthens the credibility of the study by confirming that the core conclusions remain valid under different analytical conditions.

Research Findings and Discussion

ESG Has No Significant Effect on Corporate Performance

The results of hypothesis testing reveal that the estimated coefficient linking ESG practices to corporate performance is -0.122 , with a $p\text{-value}$ of 0.521 , a figure well above conventional thresholds of statistical significance. This outcome suggests that, within the specified model, variations in ESG engagement do not translate into measurable improvements in firm performance. In other words, the evidence fails to substantiate a direct causal effect of ESG initiatives on financial outcomes. The observed negative yet insignificant association implies that, at least in the short run, ESG adoption has not yielded tangible economic benefits. Rather, its role appears to be oriented toward meeting legitimacy and compliance expectations, particularly in manufacturing firms operating in emerging markets where implementation costs and efficiency limitations remain pressing challenges.

The findings of this investigation stand in contrast to those reported by (Fu & Li, 2023), who identify a significant and positive association between ESG disclosure and both corporate value and firm performance in the Indonesian and Chinese settings. Their evidence suggests that transparent ESG reporting functions as a favorable signal, enhancing investor perceptions and reinforcing stakeholder trust. In the present study, however, such disclosure does not translate into immediate gains in either market valuation or operational outcomes. This

divergence underscores the possibility that the influence of ESG transparency is highly contingent upon contextual factors, implying that its impact on performance may vary across institutional environments and temporal conditions rather than manifesting uniformly.

Previous empirical investigations by (Bahadir & Akarsu, 2024) indicates that ESG indicators are negatively associated with ROA, while their relationship with Tobin's Q does not reach statistical significance. The authors further observe that the adverse impact of ESG on ROA tends to weaken among firms that provide more comprehensive and higher-quality environmental disclosures. Similarly, findings from (Nareswari et al., 2023) suggest that elevated ESG scores may be linked to poorer corporate performance. This negative effect is attributed to the substantial resource allocation and opportunity costs required to implement ESG initiatives, which can place pressure on firms' short-term financial outcomes.

ESG Has a Significant Negative Impact On ERM

The statistical analysis reveals a negative association between ESG and ERM, as reflected by an original sample coefficient of -0.360 and a p-value of 0.001, which falls well below the 0.05 significance level. These results confirm that the relationship is statistically significant but contrary to the expected direction. Accordingly, the hypothesis proposing a positive effect of ESG on ERM is not supported. The significant negative relationship between ESG and ERM indicates that ESG practices can serve as an alternative mechanism in non-financial risk management. Through improved governance, transparency, and sustainability practices, companies can reduce their risk exposure without having to simultaneously strengthen their formal ERM framework.

These results align with the evidence reported by (Chen et al., 2024) the present findings imply that robust ESG performance contributes to more effective business risk management and enhanced risk management effectiveness. High ESG performance promotes improved governance practices, increased transparency, and more comprehensive risk disclosure. In this setting, ESG serves as an important mechanism for supporting ERM implementation by reinforcing governance structures and facilitating the integration of risk considerations into organizational decision-making (Farooq et al., 2025).

ERM Has No Significant Effect On Corporate Performance

The estimation results reveal that enterprise risk management (ERM) carries a positive coefficient of 0.210 in relation to firm performance; nevertheless, the corresponding p-value of 0.119 lies above the conventional 0.05 threshold, indicating that the association lacks statistical significance. This outcome implies that ERM does not exert a decisive influence on performance within the tested model, thereby offering limited empirical backing for the proposed hypothesis. The presence of a positive yet non-significant linkage suggests that the advantages of ERM are primarily preventive and strategic, unfolding over a longer horizon rather than being immediately captured in short-term financial indicators. Moreover, heterogeneity in the degree of ERM maturity across firms may attenuate its observable effect, further constraining its measurable contribution to corporate outcomes.

In contrast to (Yun, 2023) this study does not observe similar performance benefits from comprehensive ERM implementation. Existing studies typically explain the positive ERM–performance linkage through enhanced risk integration and improved strategic decision processes. Accordingly, ERM is conceptualized as more than a technical risk management instrument; it represents a strategic capability that facilitates operational efficiency and sustains stable firm performance over time. This view is further supported by (Crawford & Jabbour,

2024) who highlight that the majority of empirical studies observe a positive relationship between ERM and corporate performance, especially regarding financial metrics. The beneficial impact of ERM appears to be more pronounced in organizations exhibiting higher levels of ERM maturity, suggesting that well-developed risk management practices serve as a strategic lever for enhancing overall corporate performance.

The empirical literature reveals considerable variation in the association between ERM and organizational performance, with many studies failing to establish robust statistical effects. For instance, Otero González et al., (2020) find that ERM adoption in Spanish firms does not yield significant performance improvements, thereby raising questions about the broader applicability of such findings beyond specific national contexts. A number of scholars contend that the outcomes of ERM are highly contingent upon institutional and environmental conditions, and in certain cases, its implementation may even generate adverse consequences. Complementing this perspective, Alsalami et al., (2023) observe that ERM exhibits a strong linkage with accounting-based indicators such as ROA, yet its influence on market-oriented measures, particularly Tobin's Q, fails to achieve statistical relevance.

ERM Has No Significant Effect in Mediating ESG On Corporate Performance.

The mediation research reveals that ERM does not serve as a statistically significant mediator in the association between ESG and company performance. The indirect effect is represented by a coefficient of -0.075, with a p-value of 0.202, surpassing the conventional threshold for statistical significance. The insignificant role of ERM mediation indicates that the influence of ESG on company performance is not entirely channelled through formal risk management mechanisms. This finding suggests that ESG and ERM can operate relatively independently or substitutively in influencing corporate performance.

The empirical evidence suggests that ERM does not operate as an intermediary mechanism linking ESG practices to firm performance, thereby challenging the hypothesized mediating effect. This outcome diverges from the perspective advanced by (Beasley et al., 2023), who position ERM as a comprehensive risk governance architecture capable of amplifying the value-creating potential of ESG engagement. Their study underscores that when ERM systems are strategically embedded and coherently structured, they can strengthen the effectiveness of ESG initiatives, particularly by fostering improvements in financial metrics such as ROA. Within that conceptualization, ERM is portrayed as a pivotal channel through which the advantages of ESG adoption are systematically converted into tangible performance gain

5. Conclusion

Utilizing panel data from Indonesian manufacturing firms over the 2022–2024 period, this study examines the extent to which ERM mediates the relationship between ESG practices and corporate performance. The empirical evidence indicates that ESG engagement does not produce a statistically significant improvement in firm outcomes, implying that the institutionalization of sustainability indicators alone is insufficient to generate immediate financial or operational benefits. Notably, the analysis uncovers a pronounced negative association between ESG activities and ERM maturity, pointing to a possible substitution effect whereby firms that emphasize sustainability-oriented risk mitigation may regard conventional ERM structures as less essential for addressing non-financial exposures. In addition, ERM itself does not exhibit a significant influence on performance, nor does it operate as an effective transmission channel for ESG related advantages. Viewed through the lens of stakeholder

theory, these findings suggest that the interplay between sustainability initiatives, risk governance, and value creation is complex, non-linear, and heavily conditioned by institutional environments and organizational characteristics that lie beyond the scope of the present model. Overall, the results imply that the strategic benefits of ESG and ERM are more likely to emerge through indirect and context-specific mechanisms, underscoring the need for further inquiry into these pathways.

This research possesses multiple limitations. The emphasis is predominantly on the manufacturing sector, the duration of observation is rather brief, and the model exhibits limited explanatory ability. The assessment of ESG elements and ERM relies on the extent of disclosure. Consequently, it is advisable that additional research be undertaken to resolve these difficulties.

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