ABNUS JOURNAL
Your Research Partner

Corelytics: Insights into Business & Accounting Systems (Corelytics)
E-ISSN: 3164-3337 | Vol. 1, No. 2 (2026) | pp. 127-139

The Impact of ESG Disclosure and Corporate Risk Management on Indonesian Banks' Financial Performance

Vannesa Novita Sari[1*], Agrianti Komalasari[2], Ratna Septiyanti[3]

Faculty of Economics and Business, University of Lampung[1,2,3]

***Corresponding author:** novitasarivannesa@gmail.com |

Received: 25 March 2026 | Revised: 24 April 2026 | Published: 29 May 2026

Abstract

Purpose: This study aims to examine the effect of Environmental, Social, and Governance (ESG) disclosure and Enterprise Risk Management (ERM) disclosure on the financial performance of banking companies listed on the Indonesia Stock Exchange (IDX) during the 2022–2024 period.

Research Methodology: This study employs a quantitative approach using secondary data from annual and sustainability reports of 27 banking companies listed on the IDX during 2022–2024. ESG and ERM disclosures were measured using GRI 2021 and COSO ERM frameworks, respectively, and analyzed using panel data regression with the Random Effect Model (REM).

Results: The results show that ESG disclosure has a negative and significant effect on financial performance, indicating that ESG implementation and disclosure may increase operational costs and reduce short-term profitability. Meanwhile, ERM disclosure has a positive and significant effect on financial performance, demonstrating that effective risk management enhances operational efficiency and reduces potential losses.

Conclusions: The study concludes that ERM contributes to improving banking financial performance, whereas ESG disclosure requires a longer period to generate financial benefits.

Limitations: This study is limited by the observation period and the low explanatory power of the model, suggesting that other factors may influence financial performance.

Contributions: This study contributes to the literature by integrating ESG and ERM disclosure into a financial performance model and providing insights for banking managers, regulators, and stakeholders regarding sustainability and risk management practices.

Keywords: *Environmental Social Governance Disclosure, Enterprise Risk Management, Financial Performance, Return On Assets (ROA)*

How to Cite: Sari, V. N., Komalasari, A., & Septiyanti, R. (2026). The Impact of ESG Disclosure and Corporate Risk Management on Indonesian Banks' Financial Performance. *Corelytics: Insights into Business & Accounting Systems (Corelytics)*, 1(2), 127-139.

1. Introduction

Financial performance represents a fundamental indicator for evaluating a company's ability to manage resources effectively and efficiently in achieving its strategic objectives. In the banking industry, financial performance has a particularly significant role because banks function as financial intermediaries that collect and distribute public funds, facilitate economic activities, and maintain the stability of the financial system. The sustainability of banking operations is therefore highly dependent on the ability of banks to maintain profitability, manage risks, and build stakeholder confidence. Among various financial performance indicators, Return on Assets (ROA) is widely used to assess banking efficiency because it reflects the ability of management to utilize total assets in generating profits (Khalifaturofi, 2021).

The development of the Indonesian banking industry has shown relatively strong performance in recent years; however, several challenges remain regarding the sustainability of such performance. Based on Indonesian Banking Statistics 2024, the average ROA of national banking companies fluctuated during the 2022–2024 period, increasing from 2.43% in 2022 to 2.74% in 2023 before declining to 2.53% in 2024 (OJK, 2025). Interestingly, this decline occurred despite continued growth in banking profits in nominal terms. This phenomenon indicates that higher profitability does not necessarily reflect improved efficiency in asset utilization. The gap between profit growth and ROA development suggests the existence of structural challenges related to operational efficiency, asset quality, corporate governance, and risk management effectiveness. Consequently, financial performance evaluation has expanded beyond traditional financial indicators by considering non-financial factors that may influence long-term corporate sustainability (Crous, Battisti, & Leonidou, 2022).

One of the increasingly important non-financial factors is Environmental, Social, and Governance (ESG) disclosure. ESG disclosure reflects a company's commitment to integrating environmental responsibility, social accountability, and governance practices into its business operations (Narkunienė & Ulbinaitė, 2018). In the financial sector, ESG disclosure has gained increasing attention because banking institutions not only generate economic value but also influence sustainable development through their financing decisions. Banks play an important role in directing capital flows toward environmentally and socially responsible activities (Falcone, 2020). Therefore, transparent ESG disclosure is expected to enhance corporate reputation, strengthen stakeholder trust, improve investor confidence, and ultimately contribute to better financial performance (Alsayegh & Homayoun, 2020).

The growing importance of ESG implementation is also supported by regulatory developments in Indonesia. The Financial Services Authority (*Otoritas Jasa Keuangan*/OJK) issued Regulation No. 51/POJK.03/2017 concerning the implementation of sustainable finance for financial service institutions, issuers, and public companies. This regulation encourages financial institutions to integrate sustainability principles into their business strategies and reporting practices. However, the implementation of ESG principles in the Indonesian banking sector remains complex. Several major banks continue to provide financing exposure to carbon-intensive industries, including coal and fossil energy sectors, while simultaneously communicating commitments toward sustainability and green transition initiatives (Gunningham, 2020). This situation reflects a potential gap between formal ESG commitments and actual business practices, raising questions about whether ESG disclosure represents substantive sustainability efforts or primarily fulfills regulatory and reputational requirements.

From a theoretical perspective, ESG disclosure can be explained through legitimacy theory and stakeholder theory. Legitimacy theory suggests that companies seek social acceptance by aligning their operations with societal expectations. Through ESG disclosure, companies attempt to demonstrate responsibility toward environmental and social issues, thereby maintaining legitimacy and strengthening long-term business sustainability. Meanwhile, stakeholder theory emphasizes that companies are responsible not only to shareholders but also to broader stakeholders, including customers, regulators, employees, communities, and investors. Therefore, transparent ESG disclosure is expected to improve stakeholder relationships and create economic benefits (Glambosky, Jory, & Ngo, 2023). Nevertheless, the financial implications of ESG practices remain debated because ESG implementation requires substantial investments, while the financial benefits may only emerge over a longer period.

Apart from sustainability practices, effective risk management is another critical factor influencing banking financial performance. Banks operate in an environment characterized by various risks, including credit risk, market risk, liquidity risk, operational risk, compliance risk, and reputational risk. In this context, Enterprise Risk Management (ERM) provides a comprehensive framework that enables organizations to identify, assess, monitor, and control risks systematically. Effective ERM implementation allows banks to minimize potential losses, improve decision-making quality, enhance operational efficiency, and maintain financial stability (Mishra, Rolland, Satpathy, & Moore, 2019).

Therefore, ERM disclosure can serve as an important signal to stakeholders regarding the company's capability to manage uncertainties and achieve sustainable performance.

Previous empirical studies have provided inconsistent findings regarding the relationship between ESG disclosure, ERM, and financial performance. Several studies, such as Chouaibi, Rossi, Siggia, and Chouaibi (2021), found that ESG disclosure has a positive effect on financial performance, indicating that sustainability practices can enhance profitability through improved reputation and stakeholder trust. However, other studies, including Husada and Handayani (2021), reported insignificant relationships, suggesting that ESG benefits may not immediately translate into financial outcomes. Minggu, Aboladaka, and Neonufa (2023) demonstrated that the impact of ESG may vary across different dimensions. Similar inconsistencies are also found in ERM studies. Research conducted by Saeidi, Saeidi, Gutierrez, Streimikiene, Alrasheedi, Saeidi, and Mardani (2021) and Fitriana and Wardhani (2020) indicated that ERM positively affects financial performance, while Seviona and Haryati (2024) and Azaria, Dewi, and Siddi (2023) reported different conclusions. These contradictory findings indicate that the relationship between sustainability disclosure, risk management, and financial performance remains inconclusive and requires further empirical investigation.

Based on these research gaps, this study aims to examine the effect of Environmental, Social, and Governance disclosure and Enterprise Risk Management disclosure on the financial performance of banking companies listed on the Indonesia Stock Exchange (IDX) during the 2022–2024 period. This study differs from previous research by simultaneously incorporating ESG disclosure and ERM disclosure into a single analytical framework within the Indonesian banking sector (Gutiérrez-Ponce & Wibowo, 2023). The integration of these variables provides a broader perspective by considering both sustainability-oriented practices and internal risk governance mechanisms as determinants of financial performance.

This study contributes to the accounting and finance literature by providing empirical evidence regarding the role of ESG and ERM disclosures in explaining banking financial performance within an emerging market context. Practically, the findings provide valuable implications for banking management in developing sustainability strategies and strengthening risk governance systems. For regulators and investors, the results offer insights into whether sustainability disclosure and risk management practices represent effective mechanisms for supporting long-term financial performance and corporate resilience.

2. Literature Review and Hypothesis/es Development

2.1 Legitimacy Theory

Legitimacy theory states that companies must align their activities with the value systems, social norms, and expectations established by the society in which they operate (Belkaoui, 2006). This theory is based on the concept of a social contract between companies and society, where companies are expected to conduct their business activities responsibly in exchange for the acceptance and support of society. The continuity and success of a company are not solely determined by its ability to generate economic value but also by its ability to demonstrate that its operations are consistent with prevailing social expectations. This theory emphasizes that society plays an important role in determining the long-term sustainability and development of companies. Companies that fail to meet social expectations may experience a legitimacy gap, which occurs when there is a difference between corporate actions and societal perceptions regarding responsible business practices. Such a gap may negatively affect corporate reputation, stakeholder trust, and ultimately business performance. Therefore, companies continuously attempt to maintain legitimacy by implementing responsible business strategies and communicating their commitments through various forms of corporate disclosure (Ching & Gerab, 2017).

Legitimacy theory is closely related to corporate responsibility toward environmental, social, and governance issues arising from business operations. In the modern business environment, stakeholders increasingly demand transparency regarding how companies manage their environmental impacts, social responsibilities, and governance mechanisms. Through sustainability practices and non-financial disclosures, companies can demonstrate their commitment to addressing broader societal concerns beyond financial objectives. Environmental, Social, and Governance (ESG) disclosure represents one of the mechanisms used by companies to communicate their sustainability efforts and strengthen their legitimacy among stakeholders (Alsayegh & Homayoun, 2020).

Furthermore, effective risk management practices can also support corporate legitimacy by demonstrating the company's ability to identify, control, and mitigate potential risks that may affect stakeholders. Companies that implement comprehensive risk management systems are perceived as more responsible and reliable because they are capable of protecting stakeholder interests and maintaining business continuity (Ewertowski, 2022; Assibi, 2022). In this context, transparency regarding risk management practices can reduce information asymmetry and increase stakeholder confidence in the company's operational stability (Abbas, Tubagus, Taqi, & Yazid, 2021). Therefore, companies that consistently demonstrate commitment to sustainability practices, responsible governance, and effective risk management are more likely to gain social acceptance and maintain positive relationships with stakeholders (Helfaya & Moussa, 2017). This enhanced legitimacy can provide several long-term benefits, including improved corporate reputation, stronger stakeholder support, increased investor confidence, and better access to resources. Ultimately, these factors may contribute to improved operational efficiency, competitive advantage, and sustainable financial performance.

2.2 Stakeholder Theory

According to Martínez-Peláez, Ochoa-Brust, Rivera, Félix, Ostos, Brito, and Mena (2023), stakeholders are defined as "groups or individuals who can influence or be influenced by the achievement of an organization's objectives." Companies have broader responsibilities toward communities and parties that are directly or indirectly affected by their activities. Stakeholder theory suggests that companies should not focus solely on profit maximization but also consider the interests of various stakeholders, including investors, customers, employees, regulators, communities, and other related parties. To fulfill stakeholder expectations, management is responsible for ensuring transparent corporate operations through both financial and non-financial disclosures (DesJardine, Zhang, & Shi, 2023).

From the perspective of stakeholder theory, companies are expected to create value not only for shareholders but also for all parties who have an interest in or are affected by corporate activities. In this context, transparency through ESG disclosure and risk management reporting becomes an important mechanism for companies to demonstrate accountability and responsiveness toward stakeholder expectations (Miralles-Quirós, Miralles-Quirós, & Redondo, 2019). ESG disclosure provides stakeholders with information regarding the company's commitment to environmental responsibility, social welfare, and governance quality, while ERM disclosure reflects the company's capability to identify, manage, and mitigate potential risks that may influence business sustainability. By providing comprehensive financial and non-financial information, companies can reduce information asymmetry, strengthen stakeholder trust, and improve corporate reputation. Strong stakeholder relationships can provide strategic benefits, such as increased investor confidence, customer loyalty, regulatory support, and improved access to resources, which may ultimately contribute to enhanced operational efficiency and financial performance (Quintana & Benavides, 2022). Therefore, stakeholder theory provides a theoretical foundation for explaining how ESG practices and effective risk management mechanisms can influence corporate financial outcomes.

2.3 Financial Performance

Financial performance describes a company's financial condition during a specific period, reflected through its ability to manage, provide, and distribute financial resources. Financial performance is commonly assessed using indicators such as capital adequacy, liquidity, and profitability (Chairani & Siregar, 2021). Financial performance information is important for both internal and external users of financial statements because it reflects the operational outcomes and financial health of a business sector during a certain period. Strong financial performance indicates the effectiveness of a company in managing its resources to maximize profitability and enhance shareholder value (Putri, 2020).

In the banking sector, financial performance is a crucial indicator because banks play an essential role as financial intermediaries that manage public funds and maintain economic stability. A bank's financial performance reflects its ability to efficiently utilize resources, manage operational activities, and maintain profitability amid various economic uncertainties. ROA is commonly used to measure banking financial performance because it indicates the effectiveness of management in generating profits from available assets (Damayanti & Venusita, 2022). However, financial performance is no longer determined solely by traditional financial factors, as stakeholders increasingly consider non-financial aspects such as sustainability practices and risk governance mechanisms. ESG disclosure and ERM have become important strategic factors that may influence financial outcomes by enhancing stakeholder confidence, improving corporate reputation, reducing potential risks, and supporting sustainable business operations (Bai, Han, Ma, & Zhang, 2022). Therefore, evaluating financial performance requires consideration of both financial capabilities and non-financial practices that contribute to long-term corporate sustainability.

2.4 Environmental, Social, and Governance (ESG) Disclosure

Environmental, Social, and Governance (ESG) aspects are important components in supporting economic, social, and environmental performance to achieve sustainable business objectives (Shakil, Mahmood, Tasnia, & Munim, 2019). ESG disclosure is used by investors to evaluate a company's sustainability performance comprehensively by considering the impacts of environmental responsibility, social practices, and governance mechanisms in investment decision-making. Increasingly, stakeholders, including governments, regulators, financial institutions, investors, and communities, are concerned about companies' actual performance and sustainability practices. ESG disclosure serves as a complement to traditional financial reporting by providing broader non-financial information regarding corporate sustainability efforts (Bai, Han, Ma, & Zhang, 2022). Furthermore, ESG disclosure can improve corporate reputation and create competitive advantages compared with competitors. According to Saini and Singhania (2018), increasing economic globalization and the growth of large corporations have made the disclosure of corporate governance practices increasingly important for business leaders.

Based on legitimacy theory, companies maintain a social contract with the communities in which they operate by managing resources responsibly and aligning business activities with societal expectations. ESG disclosure enables companies to fulfill social expectations and gain legitimacy, which may provide economic benefits through stronger public support and improved financial performance (Minggu, Aboladaka, & Neonufa, 2023; Bai et al., 2022). Meanwhile, stakeholder theory suggests that companies engaging in ESG disclosure can enhance stakeholder trust, strengthen corporate image, attract potential employees, and support smoother business operations because stakeholders perceive that the company considers the interests of various parties. These conditions may contribute to improved financial performance.

Previous studies conducted by Prasetyo and Musmini (2025) and Alareeni and Hamdan (2020) found that ESG disclosure positively affects ROA as a measure of financial performance. Better ESG implementation increases the potential for companies to improve financial performance. Consistent sustainability practices can strengthen public trust, customer loyalty, and corporate reputation, which may ultimately enhance profitability. Therefore, the first hypothesis is formulated as follows:

> H_1: Environmental, Social, and Governance (ESG) disclosure has a positive effect on financial performance.

2.5 Enterprise Risk Management (ERM)

Enterprise Risk Management (ERM) is defined as an integrated and systematic process used by companies to identify, assess, monitor, and manage various risks based on their probability, potential impact, and relationships among different risk categories that may affect organizational objectives and financial performance. Effective ERM disclosure provides information to stakeholders that the company has the capability to manage risks efficiently and anticipate potential uncertainties (Damayanti & Venusita, 2022). This concept is consistent with stakeholder theory, which emphasizes that companies must provide value and assurance to stakeholders in order to maintain their trust. ERM disclosure represents one of the mechanisms through which companies demonstrate their commitment to responsible management practices.

Effective enterprise risk management is expected to improve company performance and reduce the possibility of operational failure by implementing structured and systematic approaches to managing business risks. In the banking sector, where companies face various risks such as credit risk, liquidity risk, operational risk, and regulatory risk, ERM plays an essential role in maintaining stability and supporting sustainable financial performance.

Previous studies conducted by Pangestuti et al. (2023) and (Chairani & Siregar, 2021) found that enterprise risk management has a positive effect on financial performance. ERM contributes to improved financial performance because effective risk management enables companies to identify potential threats, optimize decision-making processes, reduce losses, and improve operational efficiency. Therefore, the second hypothesis is formulated as follows:

> *H_2:* Enterprise Risk Management has a positive effect on financial performance.

3. Research Methodology

This study employs a quantitative research approach using secondary data for empirical testing. The data were obtained from annual reports and sustainability reports of banking companies listed on the Indonesia Stock Exchange (IDX), as well as relevant supporting articles and academic literature. The population of this study consists of banking companies listed on the IDX during the 2022–2024 period. The sample was selected using a purposive sampling technique, which determines samples based on specific criteria relevant to the research objectives.

Based on the predetermined sampling criteria, 27 banking companies were selected, resulting in a total of 81 firm-year observations. This study applies panel data regression analysis using the Random Effect Model (REM) to examine the effect of independent variables on the dependent variable during the observation period. Panel data regression commonly applies three estimation approaches, namely the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). The appropriate model was selected through model specification tests to determine the most suitable approach for the research data. The regression model used in this study is formulated as follows Formula 1:

$$\begin{gathered} ROA_{it} = \alpha + \beta_1 ESG_{it} \\ + \beta_2 ERM_{it} + \varepsilon_{it} \end{gathered} \tag{1}$$

3.1 Dependent Variable

The dependent variable in this study is financial performance. Financial performance is measured using profitability, which is proxied by ROA). ROA is selected as a performance indicator because it reflects the company's ability to utilize its assets effectively in generating profits during a specific period. The ROA measurement formula is as follows Formula 2:

$$ROA = \frac{\text{Net Income After Tax}}{\text{Total Assets}} \tag{2}$$

3.2 Independent Variables

3.2.1 Environmental, Social, and Governance (ESG) Disclosure (X_1)

ESG disclosure is measured using the Global Reporting Initiative (GRI) standards. Based on the GRI Standards 2021, environmental disclosures are assessed using GRI 300, social disclosures using GRI 400, and governance disclosures using GRI 2 and GRI 205 (Global, 2021). The total measurement consists of 86 disclosure items. The ESG disclosure index is calculated using the following Formula 3:

$$ESG = \frac{\text{Number of ESG items disclosed by the company}}{\text{Total GRI standard disclosure items}} \tag{3}$$

3.2.2 Enterprise Risk Management (ERM) Disclosure (X_2)

ERM disclosure is measured based on risk management-related items disclosed in company annual reports using the COSO Enterprise Risk Management Framework 2004 (Committee, 2004) . The ERM framework consists of eight dimensions with 108 disclosure items covering strategic, operational, financial reporting, and compliance objectives. The ERM disclosure index is calculated using the following Formula 4:

$$ERM = \frac{\text{Total ERM items disclosed by the company}}{\text{Total ERM disclosure items}} \tag{4}$$

4. Results and Discussions

4.1 Results

4.1.1 Descriptive Statistical Analysis

Table 1. Tabel 1. Descriptive Statistical Analysis Results

Variables	Observations	Minimum	Maximum	Mean	Std. Deviation
ESG (X_1)	81	0.081400	0.930230	0.451049	0.198644
ERM (X_2)	81	0.574074	0.981481	0.762460	0.096904
ROA (Y)	81	-0.076180	0.084090	0.009423	0.022254

Source: EViews 12 Output, 2026

Based on Table 1, the financial performance variable shows a minimum ROA value of -0.07618 and a maximum value of 0.08409, with a mean value of 0.0094 and a standard deviation of 0.02225. The table indicates a relatively wide range of values, suggesting that the distribution of companies' financial performance is not evenly dispersed. The minimum value also indicates that some companies experienced losses. The minimum value of ESG Disclosure, as the independent variable in this study, is 0.0814, while the maximum value is 0.9302, with a mean value of 0.4510 and a standard deviation of 0.1986. The relatively wide range of values indicates considerable variation in ESG disclosure practices among companies. Meanwhile, the minimum value of ERM Disclosure is 0.5740, and the maximum value is 0.9814, with a mean value of 0.7624 and a standard deviation of 0.0969.

The relatively narrow range of values indicates that most companies have a high and relatively consistent level of ERM implementation.

4.1.2 Model Selection Test

Table 2. Results of the Model Selection Tests

Test	Statistic	Prob.	Decision
Chow	231.638012	0.0000	FEM
Hausman	0.860461	0.6504	REM
Lagrange Multiplier (BP)	66.00272	0.0000	REM

Source: EViews 12 Output, 2026

Table 2 presents the results of the model suitability tests for panel data, consisting of three stages: the Chow Test, Hausman Test, and Lagrange Multiplier (LM) Test, which are used to select the appropriate model among the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). The results of the Chow Test show a cross-section probability value of $0.000<0.05$, indicating that the FEM is more appropriate than the CEM. The Hausman Test produces a cross-section random probability value of $0.6504>0.05$, indicating that the REM is more appropriate than the FEM. Furthermore, the LM Test yields a Breusch-Pagan cross-section probability value of $0.0000<0.05$, indicating that the REM is more appropriate than the CEM. Overall, the results of the three tests indicate that the REM is the most appropriate and effective approach for examining the effects of ESG disclosure and corporate risk management on the financial performance of banking companies.

4.1.3 Panel Data Regression Analysis

Table 3. Results of Panel Data Regression Analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.031364	0.016499	-1.900943	0.0610
ESG (X_1)	-0.012765	0.006325	-2.018066	0.0470
ERM (X_2)	0.061045	0.021759	2.805548	0.0063

Source: EViews 12 Output, 2026

Based on the Table 3, the panel data regression equation is obtained as follows Formula 5

$$ROA = -0.031 - 0.012\,ESG + 0.061\,ERM + \varepsilon \tag{5}$$

The panel data regression results show a constant value of -0.031364, indicating that when all independent and control variables (ESG, ERM, SIZE, and DAR) are held constant, ROA is -0.031364. The ESG variable has a negative coefficient of -0.012765, indicating that an increase in ESG disclosure is associated with a potential decrease in ROA by this value, assuming all other variables remain constant (ceteris paribus). In contrast, ERM has a positive coefficient of 0.061045, indicating that an increase in corporate risk management disclosure contributes to an increase in ROA.

4.1.4 Hypothesis Testing

Table 4. Results of the Individual Parameter Significance Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.031364	0.016499	-1.900943	0.0610
ESG (X_1)	-0.012765	0.006325	-2.018066	0.0470
ERM (X_2)	0.061045	0.021759	2.805548	0.0063

Source: EViews 12 Output, 2026

Based on the significance test results presented in the Table 4, ESG is found to have a significant negative effect on financial performance (t=-2.26; p=0.0470<0.05). Meanwhile, corporate risk management has a significant positive effect on financial performance (t=2.23; p=0.0063<0.05). Therefore, all variables included in the individual parameter significance test are proven to have a significant effect on financial performance.

4.1.5 Model Goodness-of-Fit Test (F-Test)

Table 5. Tabel 5. Results of the F-Test

Statistic	Value	Statistic	Value
R-squared	0.108102	Mean dependent var	0.001588
Adjusted R-squared	0.085233	S.D. dependent var	0.006757
S.E. of regression	0.006463	Sum squared resid	0.003258
F-statistic	4.726975	Durbin-Watson stat	1.190713
Prob(F-statistic)	0.011542		

Source: EViews 12 Output, 2026

Based on the Table 5, it can be concluded that the F-test results are statistically significant. The Prob (F-statistic) value of 0.011542 is below the 0.05 significance level, indicating that the independent variables in the study collectively explain variations in the dependent variable. Therefore, it can be concluded that the research model is statistically significant and suitable for use in examining the relationships between the variables under study.

4.1.6 Coefficient of Determination Test

Table 6. Tabel 6. Results of the Coefficient of Determination Test

Statistic	Value	Statistic	Value
R-squared	0.108102	Mean dependent var	0.001588
Adjusted R-squared	0.085233	S.D. dependent var	0.006757
S.E. of regression	0.006463	Sum squared resid	0.003258
F-statistic	4.726975	Durbin-Watson stat	1.190713
Prob(F-statistic)	0.011542		

Source: EViews 12 Output, 2026

Based on the Table 6, the Adjusted R-squared value is 0.085233, indicating that the independent variables, namely ESG disclosure and corporate risk management, along with the control variable of firm size, are able to explain 8.5% of the variation in financial performance. Meanwhile, the remaining 91.5% is explained by other factors and variables that are not included in this study.

4.2 Discussion

4.2.1 The Effect of Environmental, Social, and Governance (ESG) Disclosure on Financial Performance

Based on the t-test results, the probability value of 0.0470 is lower than the 0.05 significance level, and the coefficient value is -0.012765, indicating that ESG disclosure has a negative effect on financial performance. This finding suggests that the results of this study reject the proposed hypothesis. The findings are supported by the studies of Lubis and Rokhim (2021) and Intania Kolin et al. (2024). The results indicate that the implementation and disclosure of ESG practices in banking companies have not yet generated a positive impact on profitability. One possible reason for this negative effect is that ESG implementation and disclosure require substantial costs to be incurred by companies. In the banking sector, such expenditures represent additional costs that may reduce corporate profits, thereby contributing to a decline in ROA.

Banking companies in Indonesia are still in the process of adapting to the increasing demands for sustainable finance practices. Many banks disclose ESG information primarily as a form of regulatory compliance. Meanwhile, the banking sector is already subject to strict regulations imposed by relevant authorities, meaning that additional ESG disclosure requirements may constitute an additional compliance burden. The benefits of ESG implementation tend to materialize over the long term, whereas ROA measures short-term financial performance based on a company's ability to generate profits within a specific period (Charlo, Moya, & Muñoz, 2017). Therefore, the economic benefits of ESG implementation may not yet be observable during the study period.

4.2.2 The Effect of Corporate Risk Management on Financial Performance

Based on the t-test results, the probability value of 0.0063 is lower than the 0.05 significance level, while the coefficient value is 0.061045. This finding indicates that corporate risk management has a significant positive effect on financial performance. Therefore, the results support H_2, which states that corporate risk management has a positive effect on financial performance. This finding is consistent with the studies by Chairani and Siregar (2021) and Saeidi, Saeidi, Gutierrez, Streimikiene, Alrasheedi, Saeidi, and Mardani (2021), which explain that ERM disclosure has a significant positive effect on financial performance. The positive effect indicates that the implementation of risk management enables companies to identify, measure, monitor, and control various risks that may hinder the achievement of corporate objectives.

In the banking sector, companies face various types of risks, including credit risk, market risk, liquidity risk, operational risk, legal risk, compliance risk, and reputational risk. Through the implementation of a structured risk management system, management can manage these risks more effectively, thereby minimizing potential losses and improving operational efficiency. Such efficiency ultimately contributes to increased corporate profitability, which is reflected in a higher ROA. Furthermore, the implementation of risk management enables companies to make more informed decisions, as each business decision takes into account potential risks and the corresponding mitigation strategies.

5. Conclusions

This study aims to examine the effect of ESG disclosure and corporate risk management on the financial performance of banking companies listed on the Indonesia Stock Exchange (IDX) during the 2022–2024 period, using a sample of 27 companies. The results indicate that ESG disclosure, measured using the GRI 2021 indicators, has a negative effect on financial performance, suggesting that a higher level of ESG disclosure may lead to a decline in profitability. This finding indicates that ESG disclosure may increase the costs incurred by companies. Meanwhile, corporate risk management, measured based on ERM disclosure items, has a positive effect on financial performance. This result demonstrates that the implementation of corporate risk management reflects a company's ability to manage risks effectively, which can ultimately improve its financial performance.

Acknowledgement

The authors would like to express their gratitude to all parties who contributed to the completion of this research. The authors also thank the Indonesia Stock Exchange (IDX) and the relevant data providers for providing access to the financial and corporate disclosure information used in this study. Appreciation is also extended to colleagues and academic advisors for their valuable suggestions and constructive feedback throughout the research process.

Author Contributions

VNS was responsible for conceptualization, research methodology, data collection, data analysis, and drafting the manuscript. AK contributed to the development of the research framework, interpretation of the results, and critical revision of the manuscript. RS contributed to data validation, literature review, manuscript review, and editing. All authors reviewed and approved the final version of the manuscript.

Conflict of Interest

The authors declare that there is no conflict of interest regarding the publication of this article. The research was conducted independently, and no financial, personal, or institutional relationships influenced the design, analysis, interpretation, or reporting of the research findings.

References

Abbas, D. S., Tubagus, I., Taqi, M., & Yazid, H. (2021). Determinants of enterprise risk management disclosures: Evidence from insurance industry. *Accounting*, *7*(6), 1331-1338. https://doi.org/10.5267/j.ac.2021.4.005

Alareeni, B. A., & Hamdan, A. (2020). ESG impact on performance of US S&P 500-listed firms. *Corporate Governance: The International Journal of Business in Society*, *20*(7), 1409-1428. https://doi.org/10.1108/CG-06-2020-0258

Alsayegh, M. F., Abdul Rahman, R., & Homayoun, S. (2020). Corporate economic, environmental, and social sustainability performance transformation through ESG disclosure. *Sustainability*, *12*(9), 3910. https://doi.org/10.3390/su12093910

Assibi, A. T. (2022). The role of enterprise risk management in business continuity and resiliency in the post-COVID-19 period. *Open Access Library Journal*, *9*(6), 1-19. https://doi.org/10.4236/oalib.1108642

Azaria, S., Dewi, R. R., & Siddi, P. (2023). Pengaruh manajemen risiko dan karakteristik komite audit terhadap kinerja keuangan (Studi pada perusahaan sektor aneka industri yang terdaftar di Bursa Efek Indonesia periode 2019–2021). *Oikos: Jurnal Kajian Pendidikan Ekonomi dan Ilmu Ekonomi*, *7*(2). https://doi.org/10.23969/oikos.v7i2.7812

Bai, X., Han, J., Ma, Y., & Zhang, W. (2022). ESG performance, institutional investors' preference and financing constraints: Empirical evidence from China. *Borsa Istanbul Review, 22, S157–S168*. https://doi.org/10.1016/j.bir.2022.11.013

Belkaoui, A. R. (2006). Accounting theory: Teori akuntansi (Edisi kelima). *Salemba Empat*.

Chairani, C., & Siregar, S. V. (2021). The effect of enterprise risk management on financial performance and firm value: The role of environmental, social and governance performance. *Meditari Accountancy Research*, *29*(3), 647-670. https://doi.org/10.1108/MEDAR-09-2019-0549

Charlo, M. J., Moya, I., & Muñoz, A. M. (2017). Financial performance of socially responsible firms: The short-and long-term impact. *Sustainability*, *9*(9), 1622. https://doi.org/10.3390/su9091622

Ching, H. Y., & Gerab, F. (2017). Sustainability reports in Brazil through the lens of signaling, legitimacy and stakeholder theories. *Social Responsibility Journal*, *13*(1), 95-110. https://doi.org/10.1108/SRJ-10-2015-0147

Chouaibi, S., Rossi, M., Siggia, D., & Chouaibi, J. (2021). Exploring the moderating role of social and ethical practices in the relationship between environmental disclosure and financial performance: Evidence from ESG companies. *Sustainability*, *14*(1), 209. https://doi.org/10.3390/su14010209

Committee of Sponsoring Organizations of the Treadway Commission (COSO). (2004). *Enterprise Risk Management — Integrated Framework (Executive Summary)*.

Crous, C., Battisti, E., & Leonidou, E. (2022). Non-financial reporting and company financial performance: A systematic literature review and integrated framework. *EuroMed Journal of Business*, *17*(4), 652-676. https://doi.org/10.1108/EMJB-12-2020-0134

Damayanti, A. I., & Venusita, L. (2022). Pengaruh pengungkapan enterprise risk management (ERM) terhadap kinerja perusahaan pada perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia (BEI). *Jurnal Akuntansi AKUNESA*, *10*(3), 43-54. https://doi.org/10.26740/akunesa.v10n3.p43-54

DesJardine, M. R., Zhang, M., & Shi, W. (2023). How shareholders impact stakeholder interests: A review and map for future research. *Journal of management*, *49*(1), 400-429. https://doi.org/10.1177/01492063221126707

Ewertowski, T. (2022). A standard-based concept of the integration of the corporate recovery management systems: Coping with adversity and uncertainty during a pandemic. *Sustainability*, *14*(3), 1254. https://doi.org/10.3390/su14031254

Falcone, P. M. (2020). Environmental regulation and green investments: The role of green finance. *International Journal of Green Economics*, *14*(2), 159-173. https://doi.org/10.1504/IJGE.2020.109735

Fitriana, S., & Wardhani, R. (2020). The effect of enterprise risk management and sustainability reporting quality on performance: Evidence from Southeast Asia countries. *International Journal of Economic Policy in Emerging Economies*, *13*(4), 344-. https://doi.org/10.1504/IJEPEE.2020.109588

Glambosky, M., Jory, S. R., & Ngo, T. (2023). Stock market response to the statement on the purpose of a corporation: A vindication of stakeholder theory. *Corporate Governance: An International Review*, *31*(6), 892-920. https://doi.org/10.1111/corg.12508

Global Reporting Initiative (GRI). (2021). *GRI Standards: Consolidated Set of the GRI Sustainability Reporting Standards (Universal, Sector, and Topic Standards)*.

Gunningham, N. (2020). A quiet revolution: Central banks, financial regulators, and climate finance. *Sustainability*, *12*(22), 9596. https://doi.org/10.3390/su12229596

Gutiérrez-Ponce, H., & Wibowo, S. A. (2023). Do sustainability activities affect the financial performance of banks? The case of Indonesian banks. *Sustainability*, *15*(8), 6892. https://doi.org/10.3390/ su15086892

Helfaya, A., & Moussa, T. (2017). Do board's corporate social responsibility strategy and orientation influence environmental sustainability disclosure? UK evidence. *Business Strategy and the Environment*, *26*(8), 1061-1077. https://doi.org/10.1002/bse.1960

Husada, E. V., & Handayani, S. (2021). Pengaruh pengungkapan ESG terhadap kinerja keuangan perusahaan (Studi empiris pada perusahaan sektor keuangan yang terdaftar di BEI periode 2017–2019). https://doi.org/10.52859/jba.v8i2.173

Intania Kolin, L., Azmawaroh Nasution, D., & Daniswara Darzimal, I. (2024). Pengaruh environmental, social, governance (ESG) disclosure dan kualitas audit terhadap kinerja keuangan perusahaan bank yang terdaftar di BEI periode 2018–2022. *Cakrawala: Jurnal Ekonomi, Manajemen dan Bisnis*, *1*(4), 1910-1918. https://doi.org/10.70451/cakrawala.v1i4.417

Khalifaturofi'ah, S. O. (2021). Cost efficiency, innovation and financial performance of banks in Indonesia. *Journal of Economic and Administrative Sciences*, *39*(1), 100-116. https://doi.org/10.1108/JEAS-07-2020-0124

Lubis, M. F. F., & Rokhim, R. (2021). The effect of environmental, social, and governance (ESG) disclosure and competitive advantage on companies performance as an implementation of sustainable economic growth in Indonesia for period of 2015–2019. *IOP Conference Series: Earth and Environmental Science*, *940*(1), 012059. https://doi.org/10.1088/1755-1315/940/1/012059

Martínez-Peláez, R., Ochoa-Brust, A., Rivera, S., Félix, V. G., Ostos, R., Brito, H., ... & Mena, L. J. (2023). Role of digital transformation for achieving sustainability: Mediated role of stakeholders, key capabilities, and technology. *Sustainability*, *15*(14), 11221. https://doi.org/10.3390/su151411221

Minggu, A. M., Aboladaka, J., & Neonufa, G. F. (2023). Environmental, social dan governance (ESG) dan kinerja keuangan perusahaan publik di Indonesia. *Owner*, *7*(2), 1186-1195. https://doi.org/10.33395/owner.v7i2.1371

Miralles-Quirós, M. M., Miralles-Quirós, J. L., & Redondo Hernández, J. (2019). ESG performance and shareholder value creation in the banking industry: International differences. *Sustainability*, *11*(5), 1404. https://doi.org/10.3390/su11051404

Mishra, B. K., Rolland, E., Satpathy, A., & Moore, M. (2019). A framework for enterprise risk identification and management: The resource-based view. *Managerial Auditing Journal*, *34*(2), 162-188. https://doi.org/10.1108/MAJ-12-2017-1751

Narkunienė, J., & Ulbinaitė, A. (2018). Comparative analysis of company performance evaluation methods. *Entrepreneurship and sustainability issues*, *6*(1), 125-138. https://doi.org/10.9770/jesi.2018.6.1(10

OJK (Otoritas Jasa Keuangan). (2025). Indonesia Banking Statistic – December 2024. *Jakarta, Indonesia: OJK*. Retrieved from https://ojk.go.id/en/kanal/perbankan/data-dan-statistik/statistik-perbankan-indonesia/Pages/Indonesia-Banking-Statistic--December-2024.aspx

Pangestuti, D. C., Muktiyanto, A., Geraldina, I., & D, D. (2023). Modified of ERM index for Southeast Asia. *Cogent Business & Management*, *10*(2). https://doi.org/10.1080/23311975.2023.2199906

Prasetyo, W., & Musmini, L. S. (2025). Pengaruh environmental, social, and governance (ESG) dan efisiensi operasional terhadap kinerja keuangan perusahaan perbankan yang terdaftar di BEI pada periode 2020–2023. *Jurnal Ilmiah Akuntansi dan Humanika*, *15*(2). https://doi.org/10.23887/jiah.v15i2.102379

Putri, B. G. (2020). Analisis rasio keuangan untuk mengukur kinerja keuangan. *Inspirasi: Jurnal Ilmu-Ilmu Sosial*, *17*(1), 214-226. https://doi.org/10.29100/insp.v17i1.1563

Quintana-García, C., Marchante-Lara, M., & Benavides-Chicón, C. G. (2022). Towards sustainable development: Environmental innovation, cleaner production performance, and reputation. *Corporate Social Responsibility and Environmental Management*, *29*(5), 1330-1340. https://doi.org/10.1002/csr.2272

Saeidi, P., Saeidi, S. P., Gutierrez, L., Streimikiene, D., Alrasheedi, M., Saeidi, S. P., & Mardani, A. (2021). The influence of enterprise risk management on firm performance with the moderating effect of intellectual capital dimensions. *Economic Research-Ekonomska Istraživanja*, *34*(1), 122-151. https://doi.org/10.1080/1331677X.2020.1776140

Saini, N., & Singhania, M. (2018). Corporate governance, globalization and firm performance in emerging economies: Evidence from India. *International Journal of Productivity and Performance Management*, *67*(8), 1310-1333. https://doi.org/10.1108/IJPPM-04-2017-0091

Seviona, M., & Haryati, T. (2024). The role of finance performance in moderating the effect of ERM, corporate governance, CSR, and sustainability report on firm value. *EKOMBIS REVIEW: Jurnal Ilmiah Ekonomi dan Bisnis*, *12*(3). https://doi.org/10.37676/ekombis.v12i3.6040

Shakil, M. H., Mahmood, N., Tasnia, M., & Munim, Z. H. (2019). Do environmental, social and governance performance affect the financial performance of banks? A cross-country study of emerging market banks. *Management of Environmental Quality: An International Journal*, *30*(6), 1331-1344. https://doi.org/10.1108/MEQ-08-2018-0155

