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Embedding Sustainability into Financial Project Scope: Evidence on Firm Value, Performance and Risk Mitigation

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Abstract

A quantitative longitudinal panel design was employed using data from four major Indonesian state-owned banks—Bank Mandiri, Bank Rakyat Indonesia, Bank Negara Indonesia, and Bank Tabungan Negara—covering 2020–2025 and comprising N=288 observations. ESG integration and project sustainability scope were examined in relation to return on assets (ROA), financial risk, and Tobin's Q. Fixed-effects panel regression was applied following the Hausman specification test, complemented by interaction analysis for governance and digital capability. Generalized Method of Moments (GMM) was subsequently used as a robustness approach to address potential endogeneity. ESG integration positively affects firm performance and value while reducing financial risk. Governance significantly strengthens the ESG–performance relationship (? = 0.00031, p = 0.027), while digital capability strengthens the ESG–firm value relationship (? = 0.0087, p = 0.002). The models demonstrate meaningful explanatory power, particularly for Tobin's Q (within R^2 = 0.47). Robustness tests confirm the stability of the findings. This study contributes to sustainable finance literature by shifting the focus from aggregate ESG disclosure toward sustainability integration within financial project scope and demonstrating how governance and digital capability condition ESG effectiveness. Decision makers should embed ESG into project-level investment decisions, supported by strong governance and digital infrastructure. Regulators should strengthen governance and sustainability frameworks that promote substantive rather than symbolic ESG implementation.

Keywords: Risk Mitigation; ESG Integration; Firm Performance; Governance; Sustainability.