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Enterprise Risk Management, Capital Structure, Financial Performance, and Firm Value

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Abstract

This study analyzes the influence of Enterprise Risk Management (ERM) on capital structure, financial performance, and firm value in banking companies listed on the Indonesia Stock Exchange during 2017–2024. Using a quantitative approach, this study employs secondary data from annual reports, financial statements, IDX publications, OJK reports, and Bank Indonesia reports. Data were analyzed using Generalized Structured Component Analysis (GSCA) to test direct, indirect, and mediating effects. ERM is measured using a COSO-based disclosure index, capital structure is measured by DER and DAR, financial performance by ROA, ROE, and NIM, and firm value by Tobin's Q. The results show that ERM has a positive and significant effect on capital structure, financial performance, and firm value. Capital structure negatively affects firm value, while financial performance does not significantly affect firm value. These findings indicate that ERM functions as a strategic value driver that strengthens risk governance, capital planning, and market confidence in Indonesian banking.

Keywords: Enterprise Risk Management; Capital Structure; Financial Performance; Firm Value; Indonesian Banking

Introduction

Global economic dynamics over the last decade have been marked by increasing uncertainty, especially after the end of the low-interest-rate era. The International Monetary Fund reported that central banks in the United States, Europe, and Japan tightened monetary policy aggressively to control post-pandemic inflation, while geopolitical tensions in Eastern Europe and the Middle East increased volatility in global energy and food markets. These conditions reduced international liquidity, limited cross-border financing, and increased systemic risk, particularly for emerging economies. In Indonesia, this pressure was reflected in capital outflows, rupiah depreciation, higher import costs, and increasing inflationary risk during the 2023–2024 period. This situation indicates that the banking sector must strengthen its resilience through effective risk governance, sound capital structure, and stable financial performance (Nguyen & Dang, 2022).

The banking industry is highly sensitive to external shocks because it faces credit risk, market risk, liquidity risk, operational risk, and regulatory risk. Global interest rate volatility can increase market risk, while geopolitical uncertainty may reduce asset quality and weaken credit performance. Banks without adequate risk management systems tend to experience higher income volatility and lower firm value (Durst et al., 2023). The experience of the 2008 global financial crisis also showed that weak risk management in large financial institutions could create a domino effect on financial system stability. Although the post-2022 global condition was not as severe as the 2008 crisis, it still highlights the need to strengthen Enterprise Risk Management, capital adequacy, and financial resilience in the banking sector.

In Indonesia, global pressure encouraged Bank Indonesia to implement tighter monetary policy to maintain rupiah stability and control inflation caused by rising global energy and food prices. Since 2022, this policy has increased the BI 7-Day Reverse Repo Rate and created consequences for the banking sector through higher cost of funds and tighter domestic financial liquidity (Bank Indonesia, 2024). During 2022–2024, the structure of bank deposits also shifted from savings accounts to time deposits, which generally carry higher interest costs.[13] This shift placed pressure on Net Interest Margin and reduced profitability, especially for banks that rely heavily on public deposits as their main funding source. Under these conditions, Enterprise Risk Management becomes increasingly important because it helps banks identify funding risk, manage liquidity pressure, and maintain a healthier capital structure.

The Indonesian banking sector showed relatively strong intermediation performance during the 2017–2024 period, although several risks remained significant. OJK reported that bank credit grew by 10.9% year-on-year in October 2024, indicating a continued recovery in the banking intermediation function after the pandemic. However, this credit expansion was still accompanied by credit risk, as reflected in the gross Non-Performing Loan ratio of 2.1% and the net Non-Performing Loan ratio of around 0.74–0.79%. At the same time, the Capital Adequacy Ratio remained above 20%, far higher than the minimum regulatory requirement of 8%. These conditions show that Indonesian banks generally had strong capital buffers, but they still faced liquidity pressure, credit risk, and profitability challenges. Therefore, strong capital alone is not sufficient because it must be supported by integrated ERM and effective financial performance management.

Enterprise Risk Management has become an important approach for responding to the increasing complexity of banking risks. Unlike traditional risk management, which often manages risks separately, ERM provides an integrated framework that connects risk management with strategy, performance, and value creation. COSO ERM 2017 emphasizes that risk management should not only focus on risk control, but also on strategy formulation, performance achievement, information, communication, reporting, and long-term value creation. In Indonesia, the implementation of risk management in banking is supported by OJK Regulation No. 18/POJK.03/2016, which requires banks to identify, measure, monitor, and control various types of risks, including credit, market, liquidity, operational, legal, reputational, strategic, and compliance risks. However, the domestic regulatory framework is still often associated with compliance and prudential principles, while the latest international ERM framework has moved toward strategic value creation. This creates an important issue regarding whether ERM in Indonesian banking functions only as a compliance instrument or as a strategic mechanism for improving firm value (Amelia et al., 2025).

This study examines the relationship between Enterprise Risk Management, capital structure, financial performance, and firm value in banks listed on the Indonesia Stock Exchange during the 2017–2024 period. The relationship among these variables can be explained through Agency Theory, Stakeholder Theory, Contingency Theory, Trade-Off Theory, Pecking Order Theory, Signalling Theory, and Value Maximization Theory, which collectively show that risk management, financing decisions, and financial performance are closely related to firm value creation (Sotamaa et al., 2025). Research gaps appear many studies examine ERM, capital structure, financial performance, and firm value separately, while the mediating role of capital structure and financial performance has not been fully integrated into one analytical framework (Fauziah, 2021). Therefore, this study offers a novel contribution by examining how ERM affects firm value directly and indirectly through capital structure and financial performance, using Generalized Structured Component Analysis to test direct, indirect, and mediating effects in Indonesian listed banks (Han & Um, 2024).

Theoretical Review

Enterprise Risk Management (ERM)

Enterprise Risk Management (ERM) refers to an integrated process used by companies to identify, assess, manage, and monitor risks that may affect the achievement of organizational objectives (Brabenec, 2021). ERM is not only used to reduce potential losses, but also to support strategic decision-making and long-term value creation. COSO defines ERM as the culture, capabilities, and practices integrated with strategy and performance that organizations rely on to manage risk in creating, preserving, and realizing value (Musallam, 2024). In the banking sector, ERM is highly relevant because banks are exposed to credit risk, market risk, liquidity risk, operational risk, and compliance risk. Therefore, effective ERM implementation helps banks improve risk control, strengthen transparency, and maintain stakeholder trust (Anton et al., 2025).

The relevance of ERM can be explained through Agency Theory, Stakeholder Theory, Contingency Theory, and Value Maximization Theory. From the perspective of Agency Theory, ERM reduces information asymmetry between managers and shareholders through better risk disclosure and accountability (Ogundele, 2025). Stakeholder Theory explains that ERM reflects the company's responsibility to protect the interests of investors, creditors, regulators, employees, and the public (Eichholz et al., 2024). Meanwhile, Contingency Theory emphasizes that the effectiveness of ERM

depends on company size, operational complexity, and regulatory pressure (Wang, 2023). In Indonesia, ERM implementation in banking is supported by OJK Regulation No. 18/POJK.03/2016 concerning risk management for commercial banks. Thus, in this study, ERM is positioned as an independent variable that may influence capital structure, financial performance, and firm value.

Capital Structure

Capital structure refers to the proportion of debt and equity used by a company to finance its assets and business activities (Bui et al., 2023). This concept is important because financing decisions influence financial risk, cost of capital, and firm value. (Youlianto, 2021) argue that under perfect market conditions, capital structure does not affect firm value. However, in real market conditions, capital structure becomes relevant because companies face taxes, bankruptcy costs, agency problems, and information asymmetry (Fauziah, 2021). Capital structure is commonly measured using Debt to Equity Ratio, Debt Ratio, and Long-Term Debt to Total Capitalization Ratio. These indicators show the level of leverage and the extent to which a company depends on debt financing (Oktaviani et al., 2024).

Theoretically, capital structure can be explained through Trade-Off Theory, Pecking Order Theory, and Agency Theory. Trade-Off Theory states that companies seek an optimal balance between the tax benefits of debt and the costs of financial distress (Suhadi, 2024). Pecking Order Theory explains that companies prefer internal financing first, debt second, and equity issuance as the last option because of information asymmetry (Hertina, 2024). Agency Theory also explains that debt can discipline managers because fixed interest obligations encourage more efficient use of company cash flow. In the banking sector, capital structure is closely related to capital adequacy because banks must maintain sufficient capital to absorb risks and protect depositors (Mangku et al., 2024). Therefore, in this study, capital structure is positioned as a mediating variable that links ERM, financial performance, and firm value.

Financial Performance

Financial performance reflects the company's ability to manage its resources effectively in order to generate profit and maintain business sustainability (Khairani, Octora, et al., 2025). Financial performance also shows how well management achieves financial objectives for shareholders, creditors, and other stakeholders (Khairani et al., 2026). In general, financial performance can be measured using profitability and efficiency ratios, such as Return on Assets, Return on Equity, Net Profit Margin, Earnings per Share, and Operating Profit Margin (Khairani, Tantri, et al., 2025). Return on Assets measures the ability of management to generate profit from total assets, while Return on Equity reflects the return generated from shareholders' equity. In the banking sector, financial performance is also measured using Non-Performing Loan, Loan to Deposit Ratio, and Capital Adequacy Ratio (Chaniago et al., 2026). These indicators are important because they reflect profitability, credit quality, liquidity, and capital strength (Silalahi et al., 2024).

From the perspective of Signalling Theory, good financial performance sends a positive signal to investors regarding company prospects and management quality (Fransisca et al., 2025). Strong profitability, stable earnings, and healthy banking ratios may increase investor confidence and improve market valuation (SaThierbach et al., 2025). Contingency Theory also explains that financial performance is influenced by contextual factors such as company size, business strategy, regulation, and economic conditions (Cucu Nurhayati et al., 2024). Therefore, financial performance should not only be understood as an internal result, but also as an outcome shaped by external and industrial conditions (Dash & Dey, 2025). In this study, financial performance is positioned as a mediating variable that explains how ERM and capital structure may contribute to firm value (Fadila et al., 2025).

Firm Value

Firm value reflects market perception of a company's performance, prospects, and financial health. Firm value represents the company's ability to create wealth for shareholders through current

financial performance and expected future cash flows (Akpor et al., 2024). This value is influenced by internal factors such as profitability, capital structure, risk management, and corporate governance. It is also influenced by external factors such as market conditions, regulation, and investor confidence (Inrawan & Lie, 2024). Firm value is commonly measured using Tobin's Q, Price to Book Value, and Price Earnings Ratio. Tobin's Q reflects market valuation compared to asset replacement value, Price to Book Value shows how the market values company equity, and Price Earnings Ratio, because these indicators reflect how investors assess company assets, equity, and future earnings expectations (Ahmad et al., 2023).

Theoretically, firm value can be explained through Value Maximization Theory, Signalling Theory, and Agency Theory. Value Maximization Theory states that the main objective of a company is to maximize shareholder wealth by increasing firm value (Fachrudin, 2021). Signalling Theory explains that financial performance, capital structure, and dividend policy can provide signals to investors about company prospects (Anton et al., 2023). Agency Theory explains that firm value may decline when managers make decisions that are not aligned with shareholder interests (Vuković et al., 2024). Therefore, effective risk management, healthy capital structure, and strong financial performance are needed to support value creation. In this study, firm value is positioned as the dependent variable that reflects the final outcome of ERM, capital structure, and financial performance in the banking sector (Nurjanah et al., 2024).

Methodology

This study uses a quantitative method with an explanatory research approach. The quantitative approach is appropriate because all exogenous and endogenous variables in this study can be operationalized into numerical indicators and analyzed statistically. The explanatory approach is used because this study aims to examine causal relationships among Enterprise Risk Management, capital structure, financial performance, and firm value, rather than merely describing the condition of banking companies. The object of this study is banking companies listed on the Indonesia Stock Exchange during the 2017–2024 period. The sample was selected using purposive sampling based on several criteria: banks consistently listed on the Indonesia Stock Exchange during the observation period, banks publishing complete annual reports and financial statements, banks disclosing risk management information, and banks having complete stock market data required to calculate firm value. The data used in this study are secondary data obtained from annual reports, financial statements, Indonesia Stock Exchange publications, OJK reports, Bank Indonesia reports, and other relevant financial databases.

Enterprise Risk Management is measured using an ERM disclosure index based on content analysis of annual reports. Each disclosed ERM item is given a score of 1, while each undisclosed item is given a score of 0. This measurement follows the COSO ERM framework and previous studies using disclosure index approaches to measure ERM implementation. Capital structure is measured using Debt to Equity Ratio and Debt to Asset Ratio, as leverage indicators are commonly used to represent the company's funding structure and financial risk. Financial performance is measured using Return on Assets, Return on Equity, and Net Interest Margin because these indicators reflect profitability and banking performance. Meanwhile, firm value is measured using Tobin's Q because this ratio reflects market perception of company value and investor expectations toward future growth (Denia, 2024). The measurement formulas used in this study are as follows:

$$ERM_i = \frac{\sum_{j=1}^{n} X_{ij}}{n}$$

Where:

ERM_i = ERM disclosure index of bank i
X_{ij} = disclosure score of ERM item j
n = total ERM disclosure items

Capital Structure:

$$DER = \frac{Total\ Debt}{Total\ Equity}$$

$$DAR = \frac{Total\ Debt}{Total\ Assets}$$

Financial Performance:

$$ROA = \frac{Net\ Income}{Total\ Assets}$$

$$ROE = \frac{Net\ Income}{Total\ Equity}$$

$$NIM = \frac{Net\ Interest\ Income}{Earning\ Assets}$$

Firm Value:

$$Tobin's\ Q = \frac{Market\ Value\ of\ Equity + Total\ Debt}{Total\ Assets}$$

Data analysis was conducted using descriptive statistics, panel data regression, and Generalized Structured Component Analysis. Descriptive statistics were used to summarize the characteristics of the data, including minimum value, maximum value, mean, and standard deviation. Panel data regression was used to examine direct relationships among variables because the data combine cross-sectional banking companies and time-series observations from 2017 to 2024 (Hsiao, 2014). The best panel regression model was selected through the Chow test, Hausman test, and Lagrange Multiplier test (Baltagi, 2021). Furthermore, GSCA was used to test direct, indirect, and total effects, particularly the mediating role of capital structure and financial performance in the relationship between Enterprise Risk Management and firm value. GSCA is appropriate because it can estimate complex structural models, accommodate component-based analysis, and evaluate model fit through measurement model, structural model, goodness-of-fit, and hypothesis testing. Hypotheses were accepted when the t-statistic was ≥ 1.96 and the p-value was ≤ 0.05.

Discussions

Descriptive Statistics

The results in Table 1 show that the average ERM Index is 0.762, indicating that the level of ERM disclosure among the sample banks is relatively high. The highest mean value is found in Governance & Culture at 0.804, followed by Performance at 0.801 and Review & Revision at 0.794. Meanwhile, the lowest mean value is found in Information, Communication, and Reporting at 0.667. This indicates that Indonesian listed banks have relatively strong risk governance and performance-related risk practices, but still need to strengthen risk information, communication, and reporting. The negative skewness values also show that most banks tend to have high ERM disclosure scores.

Table 1. Descriptive Statistics of Enterprise Risk Management

	Gov & Culture	Strategy & Objective-Setting	Performance	Review & Revision	Information, Commu, & Reporting	ERM Index
Mean	0.804	0.707	0.801	0.794	0.667	0.762
Median	0.8	0.75	0.8	1	0.667	0.75
SD	0.126	0.205	0.092	0.247	0.202	0.104
Min	0.2	0	0	0	0	0.1
Max	1	1	1	1	1	0.95
Skewness	-0.843	-0.284	-2.274	-0.973	-0.754	-1.881
Kurtosis	2.738	-0.135	20.106	0.273	2.194	8.409

Source: Process Data, 2026

Table 2 shows that the sample banks have a high level of leverage. The mean DER value of 556.151 indicates that total debt is generally higher than equity, while the mean DAR value of 81.393 shows that most bank assets are financed by liabilities. The standard deviation of DER is much higher than DAR, meaning that the variation in debt compared to equity is greater across banks. The positive skewness of DER indicates the presence of several banks with very high leverage, while the negative skewness of DAR shows that most banks have a high proportion of debt to total assets

Table 2. Descriptive Statistics of Capital Structure

	DER	DAR
Mean	556.151	81.393
Median	523.379	83.958
SD	313.503	9.193
Min	49.251	32.999
Max	3047.119	96.822
Skewness	2.319	-1.857
Kurtosis	12.449	4.846

Source: Process Data, 2026

Table 3 shows that the average ROA is 0.377 and the average ROE is 1.554. These values indicate that the financial performance of the sample banks is generally positive, although not evenly distributed. The median values of ROA and ROE are higher than their means, showing that several banks had very low profitability and pulled the average downward. The high standard deviation of ROE indicates that return on equity is more volatile than return on assets. The negative skewness and high kurtosis values also show that financial performance data are strongly affected by extreme negative observations

Table 3. Descriptive Statistics of Financial Performance

	ROA	ROE
Mean	0.377	1.554
Median	0.599	3.743
SD	2.257	24.086
Min	-18.058	-353.342
Max	3.785	20.936
Skewness	-3.555	-10.699
Kurtosis	18.77	147.335

Source: Process Data, 2026

Table 4 shows that firm value varies widely across the sample banks. The mean Tobin's Q value of 1.456 indicates that, on average, the market values the sample banks above the book value of their assets. However, the large difference between mean and median values, especially for PBV and PER, indicates the presence of extreme market valuation in several banks. PER has the highest standard deviation, skewness, and kurtosis, meaning that this indicator is the most volatile and most affected by outliers. Overall, Tobin's Q appears to be the most stable indicator of firm value compared to PBV and PER.

Table 4. Descriptive Statistics of Firm Value

	Tobins'Q	PBV	PER
Mean	1.456	23.647	165.648
Median	0.999	5.235	15.543
SD	2.143	81.795	1426.808
Min	0.798	0.05	-246.255
Max	21.85	774	25168.22
Skewness	6.282	7.377	16.865
Kurtosis	43.715	59.111	291.759

Source: Process Data, 2026

Outer Model Test

The results in Tables 5 and 6 show that all ERM dimensions have positive weights and their confidence intervals do not cross zero. This means that all ERM dimensions significantly contribute to forming the ERM construct. The highest contribution comes from Information, Communication, and Reporting, followed by Governance & Culture. For capital structure, DER and DAR both show strong contributions. For financial performance, ROA and ROE also show strong contributions. In the firm value construct, Tobin's Q and PBV have stronger weights, while PER has the lowest weight, indicating that PER is relatively weaker in representing firm value in this model. Meanwhile, the coefficient of 1.000 in the second-order component is interpreted as a scaling and identification value, not as a causal effect

Table 5. Weights for 1st Order Component

	Estimate	SE	95%CI	
ERM				
Governance & Culture	0.337	0.035	0.285	0.42
Strategy & Objective-Setting	0.317	0.033	0.266	0.394
Performance	0.301	0.033	0.212	0.343
Review & Revision	0.254	0.033	0.185	0.316
Information, Communication, & Reporting	0.359	0.042	0.301	0.464
Capital Structure				
DER	0.586	0.079	0.442	0.743
DAR	0.478	0.074	0.324	0.611
Financial Performance				
ROA	0.508	0.035	0.413	0.554
ROE	0.563	0.048	0.469	0.656
Company Value				
Tobins'Q	0.572	0.052	0.459	0.657
PBV	0.545	0.069	0.335	0.581
PER	0.097	0.138	0.008	0.426

Source: GSCA Pro 1.2.1.0 (2026)

Table 6. Weights for 2nd Order Component

	Estimate	SE	95%CI	
ERM Index				
ERM	1	0	1	1

Source: GSCA Pro 1.2.1.0 (2026)

Inner Model Test

Table 7. Path Coefficients

Variable Relationships	Coefficient	SE	95% CI	Description
ERM → Capital Structure	0.144	0.046	0.057 – 0.236	Significant
ERM → Financial Performance	0.169	0.047	0.080 – 0.268	Significant
Capital Structure → Financial Performance	-0.177	0.163	-0.464 – 0.111	Not Significant
ERM → Company Value	0.087	0.034	0.013 – 0.148	Significant
Capital Structure → Company Value	-0.162	0.091	-0.370 – -0.020	Significant
Financial Performance → Company Value	0.058	0.073	-0.075 – 0.214	Not Significant

Source: GSCA Pro 1.2.1.0 (2026)

Based on the 95% confidence interval, a relationship is significant if the interval does not cross zero. Table 7 shows that ERM has a positive and significant effect on capital structure, financial performance, and firm value. This means that stronger ERM implementation is associated with better capital structure management, improved financial performance, and higher firm value. Capital structure has a negative and significant effect on firm value, indicating that higher leverage tends to reduce

market valuation in the sample banks. Meanwhile, capital structure does not significantly affect financial performance, and financial performance does not significantly affect firm value.

Hypothesis Testing

The results in Table 8 show that H1, H2, H3, and H4 are accepted, while H5 and H6 are rejected. These findings indicate that ERM plays an important role in explaining capital structure, financial performance, and firm value. However, the mediating role of financial performance appears to be weak because financial performance does not significantly affect firm value. The negative effect of capital structure on firm value also suggests that higher leverage may be viewed negatively by investors in the banking sector.

Table 8. Hypothesis Testing Results

Relationships	Coefficient	95% CI	Description
ERM → Capital Structure	0.144	0.057 – 0.236	Accepted
ERM → Company Value	0.087	0.013 – 0.148	Accepted
ERM → Financial Performance	0.169	0.080 – 0.268	Accepted
Capital Structure → Company Value	-0.162	-0.370 – -0.020	Accepted
Capital Structure → Financial Performance	-0.177	-0.464 – 0.111	Rejected
Financial Performance → Company Value	0.058	-0.075 – 0.214	Rejected

Source: GSCA Processed Data, 2026

Model Fit

Table 9 shows that the FIT value is 0.483 and the AFIT value is 0.478, meaning that the model explains approximately 48% of the total variance. The GFI value of 0.965 indicates a very good level of model fit, while the SRMR value of 0.063 shows that the model has a relatively low residual error. Overall, the GSCA model is acceptable for explaining the relationship between Enterprise Risk Management, capital structure, financial performance, and firm value. However, the weak contribution of PER in the firm value construct should be considered when interpreting the results

Table 9. Model Fit Measures

S	AFIT	FITs	FITm	GFI	SRMR	OPE	OPEs	OPEm
0.483	0.478	0.222	0.591	0.965	0.063	0.524	0.803	0.408

Source: GSCA Pro 1.2.1.0, 2026

Discussions

The Influence of Enterprise Risk Management on Capital Structure

The findings show that Enterprise Risk Management has a positive and significant effect on capital structure. This result indicates that better ERM implementation is associated with better funding control and capital structure management in Indonesian listed banks. This finding is consistent with the COSO ERM Framework, which explains that ERM is not only a risk control mechanism but also a strategic process integrated with strategy-setting and performance (Adam & Mahtab, 2023). In the banking sector, ERM helps management align funding decisions with risk appetite, capital adequacy, and the bank's ability to absorb financial shocks. This finding also supports the Trade-Off Theory, which argues that firms need to balance the benefits of debt with financial distress costs (Brumfield et al., 2023). The implication of this result is that ERM can function as a governance mechanism in capital structure decisions. Banks with stronger ERM are more likely to evaluate funding risk, liquidity pressure, and leverage exposure before making financing decisions. This is important because excessive leverage may increase agency costs and weaken firm stability (Sahasranamam et al., 2024). Therefore, bank management should not treat ERM only as a compliance requirement, but as a strategic tool for designing a healthier and more controlled capital structure.

The Influence of Enterprise Risk Management on Firm Value

The results show that Enterprise Risk Management has a positive and significant effect on firm value. This finding means that the market gives a better valuation to banks with stronger risk management quality. From the perspective of Signalling Theory, ERM can be interpreted as a positive signal because it reflects risk transparency, managerial discipline, and the company's ability to manage uncertainty (Anton et al., 2025). This finding is also in line with Value Maximization Theory, which argues that strategic managerial decisions should support long-term shareholder value creation (Durst et al., 2023). This result provides an important implication for bank management and investors. For management, ERM should be strengthened as part of corporate strategy because it can increase market confidence. For investors, ERM disclosure can be used as one of the indicators in evaluating the quality of bank governance and long-term prospects. This finding is consistent with previous studies showing that firms with stronger ERM tend to have higher firm value and lower cost of capital (Ogundele, 2025). However, ERM should not be viewed as a single factor, because firm value is also influenced by capital structure, financial performance, asset quality, and market expectations.

The Influence of Enterprise Risk Management on Financial Performance

The findings show that Enterprise Risk Management has a positive and significant effect on financial performance. This result indicates that better ERM implementation can improve banks' ability to generate profitability. In this study, financial performance is reflected through ROA and ROE, so the result suggests that banks with stronger risk management tend to use assets more efficiently and generate better returns for shareholders. This finding is consistent with the COSO ERM Framework, which places ERM as part of strategy and performance management (Amelia et al., 2025). The managerial implication is that ERM can help banks reduce operational inefficiency, improve decision-making quality, and control financial risks that may affect profitability. In the banking industry, risk management is closely related to credit quality, liquidity control, operational stability, and capital resilience. Therefore, ERM should be integrated with performance management rather than separated as a compliance function. This finding also supports previous studies that found a positive relationship between ERM and financial performance in financial institutions and emerging markets (Hou et al., 2024).

The Influence of Capital Structure on Firm Value

The results show that capital structure has a negative and significant effect on firm value. This finding indicates that higher leverage tends to be responded to negatively by the market. In the banking sector, a high level of debt may not always be interpreted as a sign of expansion, but rather as a signal of higher financial risk. This result supports Trade-Off Theory, which explains that debt can increase firm value only up to an optimal point; beyond that point, additional debt may increase financial distress costs and reduce firm value (Jahanzeb et al., 2013). The implication of this finding is that banks need to avoid aggressive leverage-driven growth. A capital structure that is too dependent on debt may reduce investor confidence, especially during periods of economic uncertainty. This result also supports Agency Theory because higher leverage can increase conflicts among managers, shareholders, and creditors (Balboula & Shemes, 2025). Therefore, banks should strengthen capital buffers, improve retained earnings, manage cost of funds, and maintain a balanced funding structure to support long-term value creation.

The Influence of Capital Structure on Financial Performance

The findings show that capital structure has a negative but not significant effect on financial performance. This result means that higher leverage tends to reduce profitability, but the effect is not statistically strong enough. In other words, leverage is not the main factor explaining differences in ROA and ROE among the sample banks. This finding can be explained through Trade-Off Theory, which states that debt can support returns when it is used at an optimal level, but excessive debt may increase interest costs, liquidity pressure, and financial distress (Sindy et al., 2026). The non-significant result also indicates that the effect of capital structure on financial performance is contextual. In

banking, profitability is not only determined by leverage, but also by credit quality, cost of funds, operational efficiency, asset productivity, and risk management quality. This finding is consistent with Contingency Theory, which explains that the effectiveness of financial decisions depends on the internal and external conditions faced by each company (Sekolastika et al., 2023). Therefore, bank management should not rely only on capital structure decisions to improve profitability, but also strengthen asset quality, operational efficiency, and risk-adjusted performance management.

The Influence of Financial Performance on Firm Value

The results show that financial performance has a positive but not significant effect on firm value. This means that better profitability tends to increase firm value, but the effect is not statistically strong. In this study, market valuation does not appear to be determined only by accounting profitability. From the perspective of Signalling Theory, ROA and ROE should provide positive signals to investors, but the market may also consider the quality of earnings, risk exposure, capital structure, and governance credibility before responding to financial performance (Iftinan & Trisnawati, 2023). The implication is that profitability alone is not sufficient to increase firm value in the banking sector. Investors may require broader signals, such as stable earnings, strong ERM, healthy capital structure, and sustainable business prospects. This result is consistent with Value Maximization Theory, which emphasizes that firm value is determined by expectations of long-term cash flows and risk, not only current-period profit (Mu & Jurana, 2025). Therefore, banks need to manage profitability together with risk governance and capital strength so that financial performance can become a more credible signal for the market.

The Influence of Enterprise Risk Management on Firm Value Mediated by Capital Structure

The mediation analysis indicates that ERM affects capital structure positively, while capital structure affects firm value negatively. This pattern suggests that the indirect effect of ERM on firm value through capital structure may move in a negative direction. In this case, ERM can influence funding decisions, but if the resulting capital structure is still perceived as highly leveraged, the market may respond negatively. This finding shows that capital structure may become a competitive mediation channel because the direct and indirect effects move in different directions (Ogundele, 2025). The implication is that ERM will create value through capital structure only when the funding structure formed by management remains within an optimal leverage range. If ERM improves risk governance but does not reduce excessive leverage, the market may still perceive the bank as financially risky. Therefore, banks should ensure that ERM is connected not only to risk identification but also to capital planning, leverage control, and funding strategy. This result enriches previous studies by showing that ERM does not automatically create firm value through capital structure unless the capital structure itself is viewed positively by the market (Oniovosa, 2023).

The Influence of Enterprise Risk Management on Firm Value Mediated by Financial Performance

The findings show that ERM has a positive and significant effect on financial performance, but financial performance does not significantly affect firm value. This indicates that ERM can improve profitability, but profitability does not fully mediate the relationship between ERM and firm value. In other words, the value creation effect of ERM is stronger through the direct path than through financial performance. This finding suggests that investors may value ERM directly as a signal of risk governance quality, even when the improvement in profitability has not yet translated into higher market valuation (Abu Hatab et al., 2023). The implication is that ERM should not be evaluated only through short-term profitability. In the banking sector, ERM may create value by improving governance credibility, reducing uncertainty, and strengthening stakeholder trust. This result supports Value Maximization Theory because value creation depends on long-term expectations and risk reduction, not only on current financial performance (Musallam, 2024). Therefore, bank

management should communicate ERM quality clearly to the market so that its strategic value can be recognized beyond accounting profit indicators.

The Influence of Capital Structure on Firm Value Mediated by Financial Performance

The results show that capital structure does not significantly affect financial performance, and financial performance does not significantly affect firm value. This means that financial performance does not substantially mediate the relationship between capital structure and firm value. The effect of capital structure on firm value appears to occur more directly, as investors may immediately interpret high leverage as a source of financial risk (Youlianto, 2021). This finding is consistent with Trade-Off Theory, which argues that excessive debt can reduce firm value through financial distress and agency costs (Bui et al., 2023). The implication is that the market may not wait for leverage to affect profitability before adjusting firm valuation. In the banking sector, a high level of leverage can be directly perceived as a risk signal because it relates to liquidity, solvency, and capital adequacy. Therefore, banks need to manage leverage carefully, even when profitability appears stable. This finding also supports Agency Theory because high leverage may increase conflicts between shareholders and creditors, which can reduce market confidence.

The Influence of Enterprise Risk Management on Firm Value Mediated by Capital Structure and Financial Performance

The final mediation path examines whether ERM affects firm value through capital structure and financial performance sequentially. The findings show that the two important links in this chain, namely capital structure to financial performance and financial performance to firm value, are not significant. Therefore, the serial mediation path is not strongly supported. This means that ERM does not create firm value through a fully linear mechanism from risk management to funding decisions, then to profitability, and finally to market valuation (Slamet, 2023). This result indicates that ERM works more strongly as a direct strategic signal than as a long sequential financial transmission mechanism. From the perspective of COSO ERM 2017, ERM is integrated with strategy and performance, but its value effect does not always need to pass through every internal financial channel (Saeidi Saeidi, S. P., Saeidi, S. A. & Gutierrez, 2021). In the context of Indonesian banking during 2017–2024, the market may directly appreciate ERM as a sign of resilience, governance quality, and risk control. Therefore, ERM is better understood as a strategic resilience and value transmission mechanism rather than merely a compliance tool

Conclusions

The findings of this study show that Enterprise Risk Management has an important role in improving capital structure, financial performance, and firm value in banks listed on the Indonesia Stock Exchange during the 2017–2024 period. Banks with better ERM implementation are better able to manage funding decisions, control financial risk, and improve financial performance. ERM also helps strengthen firm value because the market tends to respond positively to banks that have better risk governance, stronger control systems, and clearer risk management practices.

The results also show that capital structure has a negative and significant effect on firm value. This means that higher leverage is not always viewed as a good signal by the market, especially when banks are considered too dependent on debt or liabilities. Financial performance has a positive but insignificant effect on firm value, which indicates that profitability alone is not enough to increase market valuation. In the banking sector, investors do not only look at profit, but also consider risk management quality, capital strength, funding structure, and long-term business sustainability.

The mediation results indicate that ERM affects firm value more strongly through the direct path than through capital structure and financial performance. Although ERM can improve capital structure and financial performance, these two variables do not fully explain the relationship between ERM and firm value. This shows that the market may respond directly to ERM as a signal of good

governance, risk control, and business resilience. Therefore, ERM should not be treated only as a compliance requirement, but as a strategic factor that can support value creation.

The managerial relevance of these findings is that banks need to strengthen ERM as part of corporate strategy. Bank managers should improve risk culture, risk communication, risk reporting, and capital planning so that ERM can be connected with financial decisions and long-term performance. Banks also need to avoid excessive leverage and focus on building a healthier funding structure. For regulators and investors, these findings show that ERM quality, risk disclosure, and capital strength are important aspects in evaluating the resilience and value of banks in Indonesia.

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