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THE EFFECT OF FIRM PERFORMANCE, ERM DISCLOSURE, AND RISK MANAGEMENT COMMITTEE ON SUSTAINABLE GROWTH RATE
PENGARUH KINERJA PERUSAHAAN, PENYAMPAIAN INFORMASI ERM, DAN KOMITE MANAJEMEN RISIKO TERHADAP LAJU PERTUMBUHAN BERKELANJUTAN

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A B S T R A C T

Sustainability, or a firm's ability to survive long-term, is a primary goal for stakeholders. Two main factors are thought to influence a firm's sustainable growth: first, firm performance, and second, sound risk management to mitigate the negative impacts of unexpected events beyond the firm's control. This study aims to examine the influence of firm performance (which includes financial performance, including profitability, liquidity, capital structure, and environmental performance), as well as the influence of enterprise risk management disclosure and Risk Management Committee on sustainable growth rates. This study is a quantitative study with hypothesis testing. The objects of this study were all manufacturing companies listed on the Indonesia Stock Exchange for the period 2021-2023. The analytical technique used was multiple regression analysis. The results of this study found that financial performance has a positive influence on sustainable growth rates, while environmental performance has a negative influence on sustainable growth rates. Enterprise risk management disclosure and Risk Management Committee were not found to have an effect on sustainable growth rates. This study implies the importance of management paying attention to performance achievements, which should not only include financial performance but also non-financial and environmental performance in fostering sustainable growth rates.

Kata Kunci: Kinerja Perusahaan, Enterprise Risk Management Disclosure, Risk Management

A B S T R A K

Keberlanjutan atau kemampuan perusahaan untuk bertahan secara jangka panjang merupakan tujuan utama para pemangku kepentingan. Ada dua faktor utama yang diduga mempengaruhi pertumbuhan

Committee, Sustainable Growth Rate berkelanjutan dari perusahaan yaitu pertama, kinerja perusahaan serta kedua yaitu pengelolaan risiko yang baik untuk mengatasi dampak buruk dari hal-hal tidak terduga yang berada diluar kendali perusahaan. Penelitian ini bertujuan untuk menguji pengaruh kinerja perusahaan (yang meliputi kinerja keuangan mencakup profitabilitas, likuiditas, struktur modal, dan kinerja pengelolaan lingkungan) serta pengaruh enterprise risk management disclosure dan risk management committee terhadap sustainable growth rate. Penelitian ini merupakan penelitian kuantitatif dengan pengujian hipotesis. Objek penelitian ini adalah seluruh perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia periode tahun 2021-2023. Teknik analisis yang digunakan adalah analisis regresi berganda. Hasil penelitian ini menemukan bahwa kinerja keuangan memiliki pengaruh positif terhadap sustainable growth rate sedangkan kinerja lingkungan memiliki pengaruh negatif terhadap sustainable growth rate. Enterprise risk management disclosure dan risk management committee tidak ditemukan berpengaruh terhadap sustainable growth rate. Penelitian ini berimplikasi pada pentingnya manajemen memperhatikan capaian kinerja yang seharusnya tidak hanya kinerja keuangan tetapi juga kinerja non-keuangan dan kinerja lingkungan dalam menumbuhkan sustainable growth rate.

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1. Introduction

A firm is founded with various goals, the primary of which is growth and long-term survival. A firm's ability to survive in the long term can be measured by its sustainable growth rate. (Higgins, 2016), a measure that indicates a firm's ability to maximize sales growth without increasing financial leverage, to prevent excessive use of financial leverage and avoid the risk of experiencing financial difficulties. The sustainable growth rate will indicate the firm's true growth because the growth rate is achieved by increasing assets that are not followed by capital expenditures (Nasim and Irnama, 2015). A high sustainable growth rate indicates proper management of all firm assets and appropriate risk management. A sustainable growth rate is necessary to survive in a competitive business world (Nugroho, 2020), because it also means that the firm can increase sales and profits optimally amidst competition with existing resources. This is due to the demand for sufficient financial resources and liquidity to survive in business competition. The higher the firm's expected sales growth rate, the greater its need for external funding (Nugroho, 2020). External funding through debt increases a firm's interest expense; therefore, the concept of a sustainable growth rate is better because it emphasizes the use of internal funding to achieve a good growth rate.

High sales growth rates over a prolonged period incur significant costs owing to competition upon market entry, increased research and development activities, and changing economic conditions (Murphy, 2022). In the long term, this can burden the firm financially because the firm is not always at its peak; there are declines, and there have been significant investments.

A sustainable firm can survive long-term due to strong financial growth while paying attention to environmental, social, and governance aspects. An example of a firm with sustainable growth is Unilever Indonesia, which aims to protect and empower the environment and communities in which it operates while simultaneously realizing sustainable business (Unilever, 2024). Efforts to achieve sustainable growth are conveyed in Unilever's 2023 Sustainability Report, which mentions "The Unilever Compass" as a guide to achieving sustainable growth.

This study aims to examine the factors that increase a firm's sustainable growth. Several factors influence the sustainable growth rate. (Nugroho, 2020; Mukherjee and Sen, 2018; Nizar and Mulyani, 2023; Ionita and Dinu, 2021; Naseer and Bagh, 2024; Rivandi, 2018; Jannah et al., 2020). The first factor is firm performance, which includes financial performance and environmental performance (Nugroho, 2020; Mukherjee and Sen, 2018; Nizar and Mulyani, 2023). Companies must perform well and manage risks effectively to grow. The metrics considered important in measuring firm performance for decades are financial performance, namely, profit and sales growth (Mukherjee and Sen, 2018). According to Nugroho (2020), the higher the profit as measured by net profit margin (NPM) and the higher the firm's growth as measured by total asset growth, the firm's sustainable growth rate is also expected to increase. As firm stakeholders continue to have a growing awareness of environmental sustainability, there is a need for environmental performance as part of the firm's performance. This is evidenced by survey data from 2023, which showed that 69% of global consumers feel that environmental sustainability is increasingly important (Nielsen IQ, 2023). This makes companies aware of the need to have a commitment and concern for environmental sustainability as an integral part of the firm's operational activities because companies have the potential to cause environmental damage in the management of natural resources used (Lestari and Khomsiyah, 2023). Environmental commitment and concern encourage companies to achieve good environmental performance, not just financial performance. Good environmental performance, as measured by the PROPER rating, ensures a firm's sustainability and long-term growth, owing to its efforts to prevent potential environmental losses. Achieving good environmental performance creates added value for the firm compared to other companies (Adyaksana and Pronosokodewo, 2020).

A firm's financial performance also influences its sustainable growth rate. Mukherjee and Sen (2018) demonstrated that liquidity, profitability, and leverage have a significant positive effect on the sustainable growth rate. This finding is also supported by Ionita and Dinu (2021), who demonstrated that leverage and firm performance (ROA) positively influence the sustainable growth rate. Unlike the two previous studies, Nugroho (2020) demonstrated that only Return on Equity (ROE) influences the sustainable growth rate. Environmental performance Good corporate governance is also achieved to avoid negative public perception of the firm, which can lead to negative sentiment among stakeholders, which can lead to a decline in product sales due to

damage to the firm's brand identity and product reputation, thus affecting the firm's long-term profits and growth. This is supported by research Ionita and Dinu (2021) that proves that brands have a significant positive influence on sustainable growth rates, so that damage to brand identity will certainly result in disrupted firm growth. These results differ from research Indriati, et al. (2022) that proves environmental performance has a negative effect on sustainable growth rates, and research by Nizar and Mulyani (2023) that proves environmental performance has no effect on sustainable growth rates. Based on the explanation above, this study attempts to explore the influence of various financial performance indicators on the dependent variable, SGR, similar to that conducted by Mukherjee and Sen (2018), who also used variables not only profitability but also liquidity and financial leverage. Their findings concluded that increased levels of liquidity, profitability, and financial leverage are positively correlated with the sustainable growth rate for the selected Indian companies. The use of these variables is expected to enrich the usefulness of financial reports in providing information on whether performance achievements other than profitability can also explain changes in a company's SGR. Furthermore, this study complements previous studies that often measure financial performance using profitability ratios alone.

The second factor that influences the sustainable growth rate is risk management disclosure. (Rivandi, 2018; Naseer and Bagh, 2024). The rapid development of information technology, dynamic and new business models, the formation of specific and new market segments, geopolitical changes, and other external environmental changes require companies to have a high level of adaptability to survive and gain a competitive advantage for their businesses in the future (IRMAPA, 2023). Survey by the Center for Risk Management & Sustainability (CRMS) Indonesia in 2023, several prominent issues predicted to occur based on a global risk management survey based on their relevance to the situation and conditions in Indonesia are geopolitical, macroeconomic, social, natural (environmental and climate), and internal firm issues. In this case, the board of directors and committees within the firm must possess a change in mindset between static and dynamic business decision-making so that the firm can be adaptive when faced with changing situations and conditions. This adaptability requires one important factor: recognizing firm risks.

A key element of risk management in a firm is recognizing, measuring, and devising mitigation strategies and solutions to address risks. Because every firm has goals, risk management is crucial to ensuring the achievement of corporate goals, including maximizing profits, gaining market share, long-term survival, achieving competitive advantage, and enhancing sustainable growth. Optimal risk management enables a firm to survive in business competition (Trisnawati et al., 2023). A reliable corporate risk management system demonstrates a firm's ability to identify risks, understand their causes, assess their impact, and mitigate future business risks, as these can be anticipated (IRMAPA, 2023).

Companies are expected to be more transparent in disclosing information, including information regarding firm risks, because stakeholders use published reports to understand the firm's condition (Jannah et al., 2020). This is achieved through ERMD, which was measured in this study using the ISO 31000:2018 Risk Management Disclosure Index. ERMD provides a positive indication and demonstrates accountability to stakeholders that the firm manages risks well and has good governance, thus increasing stakeholder confidence in the firm's sustainable growth. Trust in the firm is expected to improve its reputation, thereby increasing sales.

Several companies have experienced financial difficulties or bankruptcy due to a lack of proper risk management. In 2017, for example, PT Jamu Cap Nyonya Meneer was officially declared bankrupt on August 4, 2017. One of the causes of Jamu Cap Nyonya Meneer's bankruptcy was its inability to adapt to rapid changes (Merdeka. com, 2017). Understanding the risks that may occur can make a firm more adaptive so that it can better adjust to the market conditions in which it operates. RMD provides a broader perspective and important information for stakeholders (Ayuningtyas and Harymawan, 2022). This disclosure enables management to better identify and assess risks, enabling management to implement financial policies appropriate to the firm's conditions, which will ensure the firm's sustainable growth rate. Sound financial policies improve a firm's funding structure and performance, both of which have been shown to influence sustainable growth rates (Ionita and Dinu, 2021). These results differ from Rivandi's (2018) research, which proved that ERMD had no effect on firm value.

Companies need something that directly and indirectly influence sales and reputation to maintain a sustainable growth rate in the long term. In addition to ERMD, companies need a risk management committee (RMC), which is the third factor examined in this study. The third factor suspected of influencing the sustainable growth rate is the RMC. (Jannah, et al., 2020). RMC plays a crucial role in ERM control. Enterprise Risk Management (ERM) is essential for risk management, predictability, and minimization (Jannah et al., 2020). ERM is a risk management system implemented in a detailed, comprehensive, and integrated manner within a firm. ERM plays a crucial role in maintaining a firm’s stability. The RMC's duties and responsibilities include monitoring and developing the firm's risk management framework (Rivandi, 2018), which will be continuously reviewed and improved. It also communicates and consults with the board of commissioners to provide advice and evaluations of the firm's ERM implementation (CRMS Indonesia). This ensures optimal corporate risk management for the firm.

Ayuningtyas and Harymawan (2022) demonstrated that the existence of a RMC impacts risk disclosure. The RMC is able to provide greater quantity of risk disclosure, demonstrating its importance in managing corporate risk disclosure. The RMC provides a positive signal to stakeholders and prevents information asymmetry. Jannah et al. (2020) demonstrated that RMC have a significant positive impact on firm value. This is because the RMC identifies risks, oversees

firm activities, and continuously evaluates and improves the firm's risk management framework. In this research, the RMC, measured by its presence within the firm with a dummy variable, is suspected to have a positive impact on sustainable growth rate.

Research on the factors influencing sustainable growth rates has not yielded consistent results, particularly regarding firm performance and ERMD. This motivated this study to re-examine the direct influence of firm performance, ERMD, and RMC on sustainable growth rates. This study will also use the control variable of firm size, which indicates the size of a firm as measured by total assets (Triyono et al., 2019). In addition to being motivated by inconsistencies in previous research findings, this study is expected to provide knowledge and insight to management and stakeholders regarding the importance of risk management and good firm performance to support a firm's sustainable growth rate. Firm size and data period are control variables used in this study, developed from Dwiyanti and Handoko (2023) which only focused on the period before and during the Covid-19 pandemic. This study attempted to use the most recent three years of data at the time of its conduct. The academic benefit of this study is that it provides additional knowledge and insight into the influence of firm performance, ERMD and RMC on sustainable growth rates, especially in the manufacturing industry sector in Indonesia, and provide additional empirical findings to be used as a comparison for further research. The practical benefit of this research is to provide knowledge and insight to management and stakeholders regarding the importance of risk management and good firm performance to support the firm's sustainable growth rate, as well as provide confidence and be used as a consideration for having an independent RMC and conducting enterprise RMD for companies in Indonesia.

2. Literature Review

2.1. Stakeholder Theory

According to Freeman (1984) stakeholder theory describes the relationship between groups or individuals who have the power to influence and are influenced by a firm's operational activities in achieving its goals. Stakeholder theory states and defines the accountability of a firm. In the context of a business enterprise, stakeholders include employees, suppliers, consumers, creditors, shareholders, the government, the community, and other parties who contribute to achieving a firm's goals (Mabrur and Raharja, 2021). Stakeholders have the right to information about firm activities that influence their decision-making.

Accounting plays a role in controlling a firm's finances, providing financial and non-financial information, and assisting stakeholders in decision-making. A firm's operational activities are not only concerned with satisfying stakeholders by maximizing profits but also with environmental concerns and controlling potential risks. Management must formulate and implement business processes that satisfy all stakeholders in the firm (Freeman and McVea, 2001). By addressing

environmental concerns and implementing sound risk management, more stakeholders will be satisfied with the firm's business activities.

2.2. Firm Performance

Financial performance is a result that shows the effectiveness of a firm's operational activities, obtained by analyzing the firm's financial statements (Subramanyam, 2014:13). The main metric for measuring a firm's financial performance is revenue, because revenue is a summary of the financial impact of a firm's operational activities (Subramanyam, 2014:340). Financial performance describes a firm's ability to generate profit (Meiyana and Aisyah, 2019). This study uses profitability, liquidity, and capital structure (leverage) ratios because they are the main ratios for measuring a firm's growth potential and financial health, thus ensuring long-term sustainability. Profitability (Net Profit Margin) describes the ratio of each rupiah of sales that becomes net profit, which reflects the effectiveness of the pricing strategy and the company's ability to control operational costs (Higgins, 2016:41). The selection of the current ratio as a measure of liquidity ratio aims to better describe the company's ability to meet short-term obligations because it is measured from all current assets, not only from assets that are estimated to be converted more quickly into cash, because the cash conversion ability of each company may vary. Leverage (debt to equity ratio) can estimate the company's financial health because a high level of liabilities will result in a large interest burden for the company.

A firm's performance can also be measured in terms of its environmental performance, which relates to the various efforts a firm undertakes to control, manage, and prevent the negative environmental impacts resulting from its operational activities (Yastynda, 2022). Companies incur environmental costs to achieve good environmental performance. These efforts are undertaken to ensure environmental sustainability and demonstrate the firm's responsibility to the surrounding community (Indriati et al., 2022). Environmental performance in Indonesia is measured by the PROPER rating, which evaluates the performance of those responsible for businesses and/or activities in the field of environmental management (Menteri Lingkungan Hidup dan Kehutanan Republik Indonesia 2021).

2.3. Enterprise Risk Management Disclosure (ERMD)

ERM is risk management that is implemented in a detailed, comprehensive, and integrated manner within a firm. Enterprise risk management (ERM) is necessary to manage risks and predict and minimize them (Jannah et al., 2020). Good ERM risk analysis, structure, and reporting will help higher authorities make better risk-mitigation decisions (Trisnawati et al., 2023). ERMD aims to provide information on the firm's financial and non-financial risk profile to stakeholders and to fulfill the principle of transparency, which is one of the principles of good corporate

governance. This is especially true because ERM is also an important matter that needs to be disclosed in financial reporting according to PSAK 107 (Mabrur and Raharja, 2021). ERMD is useful for providing information to stakeholders, especially those outside the firm who are unaware of the strengths and risks that may arise from the firm, making it difficult to predict the firm's future performance and growth (Jannah et al., 2020). Disclosure of a firm's risks and risk appetite greatly helps stakeholders understand how the firm manages risks, thereby assisting them in making various business decisions. ERMD is also useful for demonstrating a firm's commitment to risk management practices within the firm.

ERMD is carried out by management together with the RMC, which can generally be seen in the firm's annual report in the corporate governance or risk management section. ERMD can be measured using the COSO-ERM or ISO 31000 standards. In this study, ERMD was measured using the ISO 31000:2018 standard in accordance with the Risk Management Disclosure Index ISO 31000:2018 (Trisnawati et al., 2023). The selection of the ISO 31000:2018 standard is because most companies in Indonesia have used a risk management framework based on the ISO 31000 standard. This is supported by the results of the CRMS Indonesia survey, which found that 67.5% of companies in Indonesia used the ISO 31000 standard in 2018 (CRMS Indonesia, 2018).

2.4. Risk Management Committee (RMC)

The risk management committee (RMC) is formed by the board of commissioners to implement and oversee the firm's risk management (CRMS Indonesia). The RMC plays a role in oversees all firm activities and provides a broader scope for identifying firm risks (Ayuningtyas and Harymawan, 2022). The RMC is expected to control and prevent identified firm risks to the maximum extent. The RMC's duties and responsibilities include monitoring and developing the firm's risk management framework, which will be reviewed and improved continuously, as well as communicating and consulting with the board of commissioners to provide advice and evaluation on the firm's ERM implementation (CRMS Indonesia).

Risk management issues requiring the board's attention, and establishing a risk management culture across all the firm’s operations. It also provides input to the Board of Commissioners regarding areas for improvement in the firm's risk management practices (CRMS Indonesia). In practice, RMC are divided into two types: independent RMC and RMC integrated with audit committees (Rini and Zakiyah, 2020). RMC measurement is generally conducted using a dummy method, with differences occurring in the scoring criteria for RMC. Some measurements focus solely on the presence or absence of risk management without considering whether the RMC is implemented independently or integrated with other committees (Jannah et al., 2020) and others that consider the implementation of the RMC independently or integrated with other

committees (Rini and Zakiyah, 2020). This study will use a dummy measurement with the criteria of an RMC performing its role independently or integrated with other committees to better demonstrate the influence of the RMC in a firm and compare whether an RMC integrated with other committees will demonstrate better performance.

2.5. Sustainable Growth Rate

A sustainable growth rate is the consistency between a firm's growth targets and the implementation of financial policies, such as maintaining a debt-to-equity ratio and managing dividend policies, as well as refraining from selling new equity (Higgins, 1977). Each firm has different growth targets to achieve. These growth targets can include sales, revenue, profit, and firm value. To achieve these targets, companies implement financial policies whose effectiveness and efficiency are unknown, so an understanding of the concept of a sustainable growth rate is necessary. This concept is used to achieve appropriate growth targets and regulate financial policies (Indriati et al., 2022).

Sustainable growth rate is the maximum percentage in asset sales or profit growth when financial and operational parameters are aligned with agreed management objectives and market expectations (Utami et al., 2018). Sustainable growth rate can be measured using several formulas: (1) SGR = R x ROE (Higgins, 2016:118); (2) SGR = [ROE x R]/[1-(ROE x R] (Arora et al., 2018); (3) SGR = [BVE_t / BVE_{t-1}] – 1 (Babcock, 1970; in Nugroho, 2020). The first formula according to Higgins (2016:118) assumes that the firm does not issue new equity and the formula is the final result of several combined financial performance ratio measures (Retention rate x Net Profit Margin x Assets Turnover x Financial Leverage). Arora et al. (2018) argue that there can be errors in nature and measurement if using the first formula measurement, so there is an additional divisor formula [1-(ROE x R]) in the second formula. The third formula assumes that changes in the book value of equity (Book Value of Equity) will affect stock performance in the context of capital appreciation. The book value of equity is the only appropriate source of funds for firm growth (Babcock, 1970 in Nugroho, 2020). This study will use the first formula to measure SGR because it is more capable of measuring the actual SGR level based on the firm's operational performance measures.

2.6. Hypotheses Development

<u>The Influence of Firm Performance on Sustainable Growth Rate</u>

Sustainable growth rate is the maximum percentage in asset sales or profit growth when financial and operational parameters are aligned with agreed management objectives and market expectations (Utami, et al., 2018). Linked to stakeholder theory, firm performance Environmental performance is the expected outcome that can fulfill the desires of each stakeholder, both

financially and non-financially. Financial performance not only meets shareholder and/or creditor expectations but also demonstrates the firm's long-term sustainability. However, because stakeholders include employees, suppliers, consumers, creditors, shareholders, the government, the community, and other parties who contribute to achieving the firm's goals (Mabrur and Raharja, 2021), companies also need to achieve certain environmental performance as an effort to align operational actions with environmental awareness. Environmental performance itself demonstrates the firm's responsibility to stakeholders, particularly to the increasingly concerned community, particularly those directly impacted by the firm's operational activities that may cause environmental damage (Lestari and Khomsiyah, 2023). The better the environmental performance results achieved by a firm, the more it will fulfill the interests of the community as its stakeholders.

In general, this study assumes that financial performance variables will increase the sustainable growth rate. However, because profitability and liquidity performance measures have different definitions, where profitability is considered good if the ratio increases, and leverage is considered good if the ratio decreases. This argument is supported by the results of research by Mukherjee and Sen (2018), which proves that profitability, liquidity, and leverage have a significant positive effect on SGR. Based on the explanation above, the hypothesis related to this study is:

H1a: Financial performance has a positive effect on sustainable growth rate.

The amount of environmental costs incurred indicates the extent of the firm's efforts in achieving the desired environmental performance based on the PROPER level. To achieve a high PROPER level certainly requires high environmental costs because many things related to the environment that need to be considered, such as the management of B3 waste to reach a safe point, the use of environmentally friendly raw materials that increase costs, the purchase and use of equipment and technology to control air and water pollution, detection and prevention activities for possible environmental risks, and costs for corporate social activities.

Companies that care about the environment will also attract stakeholders to purchase their products because they provide added value to the community. The public feels they are contributing to environmental sustainability by contributing income to companies that care about the environment. For the community, a firm becomes a primary choice if it offers environmentally friendly products (Kelly and Henny, 2023). High market demand will facilitate management's efforts to increase sales and increase profit margins, thereby increasing the firm's sustainable growth rate. High environmental performance, as measured by the PROPER score, is expected to increase the sustainable growth rate. This is supported by research by Indriati et al. (2022), which demonstrated that environmental performance positively influences sustainable growth

rate, mediated by profitability. Based on the explanation above, the hypothesis related to this research is:

H1b: Environmental performance has a positive effect on sustainable growth rate.

The Influence of Enterprise Risk Management Disclosure on Sustainable Growth Rate

ERM is risk management that is implemented in a detailed, comprehensive, and integrated manner within a firm. Enterprise risk management (ERM) is necessary to manage risks and predict and minimize them (Jannah et al., 2020). Good ERM risk analysis, structure, and reporting will help higher authorities make better risk-mitigation decisions (Trisnawati et al., 2023). This is because every potential risk has been identified, measured, and predicted more accurately. Besides being useful for management and stakeholders within the firm, as they can make appropriate decisions regarding each emerging risk, ERMD is also useful for stakeholders outside the firm.

The stakeholders need information about a firm's financial and non-financial risk profile because stakeholders generally do not understand the firm's strengths and potential risks, making it difficult to predict future performance and growth (Jannah et al., 2020). Disclosure of a firm's risks and risk appetite significantly helps stakeholders understand how the firm manages risk, thus assisting stakeholders in making various business decisions. Mabrur and Raharja (2021) demonstrates that ERMD impacts firm value. High levels of ERMD indicate sound corporate risk management and strong corporate governance, which are expected to achieve sustainable growth. ERMD also enables management to effectively manage risks, thereby increasing the sustainable growth rate. In this context, ERMD impacts the sustainable growth rate, just as it impacts firm value. Based on the explanation above, the following hypotheses are presented in this study:

H2: ERM disclosure has a positive effect on sustainable growth rate.

The Influence of the Risk Management Committee on Sustainable Growth Rate

The risk management committee (RMC) is a committee established by the board of commissioners to implement and oversee enterprise risk management (CRMS Indonesia). The RMC plays a role in overseeing all firm activities and provides a broader scope for identifying corporate risks (Ayuningtyas and Harymawan, 2022). The RMC is expected to control and prevent identified corporate risks to the maximum extent possible. RMC continuously evaluates and improves the firm's risk management framework. This provides stakeholders with confidence that the firm's risks are managed comprehensively and integratedly and can minimize the risk of firm bankruptcy. Well-managed risks enable companies to grow through efficient and effective operations. The RMC is also able to provide greater risk disclosures in quantity, demonstrating the importance of the RMC in managing firm risk disclosure (Ayuningtyas and Harymawan, 2022).

The RMC provides more detailed disclosures to stakeholders to avoid information asymmetry, which is expected to increase the firm's sustainable growth rate.

Jannah et al. (2020) demonstrated that RMC have a significant positive impact on firm value. This is because RMC identify risks, monitor firm activities, and continuously evaluate and improve the firm's risk management framework. This provides stakeholders with confidence that the firm's risks are managed comprehensively and integratedly and can minimize the risk of firm bankruptcy. Well-managed risks enable companies to grow due to efficient and effective firm operations. In this case, RMC, which will be measured by its presence in the firm with a dummy variable, is suspected to have a positive impact on sustainable growth rate, as well as its influence on firm value. Based on the explanation above, the hypothesis related to this study is:

H3: Risk management committee has a positive effect on sustainable growth rate.

2.7. Research Model

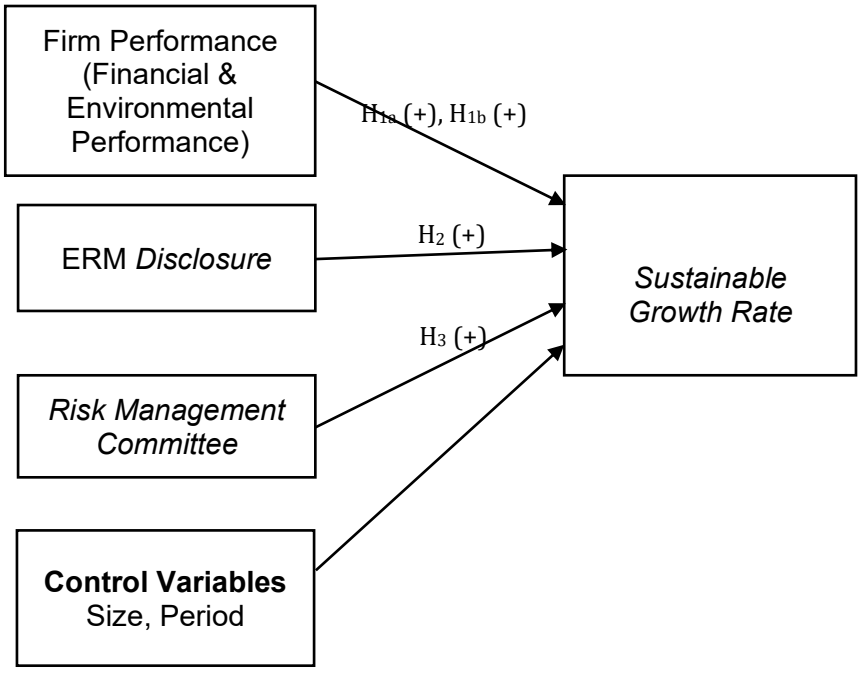

Figure 1. Research Model

3. Research Method

3.1 Operational Definition and Measurement of Variables

The dependent variable in this study is the sustainable growth rate (SGR). Sustainable growth rate is a firm's growth target by implementing several financial policies, such as maintaining the debt-to-equity ratio and regulating dividend policy, as well as not selling new equity. According to Higgins (2016:118), the sustainable growth rate (SGR) is calculated by

multiplying the retention rate by the return on equity. Measurement of independent and control variables in this study are:

1. Firm performance. Firm performance is the result of a series of processes undertaken by a firm to achieve its goals within a specific timeframe (Partiwi and Herawati, 2022). Firm performance in this study includes (a) financial performance and (b) environmental performance. Financial performance will be measured using financial ratios: profitability will be measured by the net profit margin (NPM), liquidity will be measured by the current ratio, and leverage will be measured by the debt-to-equity ratio (DER). The formula for measuring financial performance using financial ratios is outlined in Table 1. The betas of the profitability and liquidity variables are expected to be positive and significant, while the beta of the liquidity variable is expected to be negative and significant to support the research hypothesis.

Table 1
Financial Performance Measurement

Financial Ratios	Size	Formula
Profitability	Net Profit Margin (NPM)	$\text{NPM} = \frac{\text{Laba Bersih}}{\text{Penjualan}}$
Liquidity	Current Ratio (CR)	$\text{CR} = \frac{\text{Aset Lancar}}{\text{Liabilitas Lancar}}$
Leverage	Debt to Equity Ratio (DER)	$\text{DER} = \frac{\text{Total Liabilitas}}{\text{Total Ekuitas}}$

   Environmental performance is the result of all firm efforts in managing, controlling, and preventing negative impacts resulting from firm operational activities (Yastynda, 2022). Environmental performance measurement in this study was measured using a dummy method by assigning a score of "1" to companies that received a certain PROPER rating and assigning a score of "0" if the firm did not receive the PROPER rating. Dummy measurements for environmental performance will be symbolized by D0, D1, D2, D3, and D4. The dummy measurement for the gold PROPER level will be assigned a score of 1 at D0, the dummy measurement for the green PROPER level will be assigned a score of 1 at D1, the dummy measurement for the blue PROPER level will be assigned a score of 1 at D2, the dummy measurement for the red PROPER level will be assigned a score of 1 at D3, and the dummy measurement for the black PROPER level will be assigned a score of 1 at D4. Companies that obtain different PROPER levels in several existing branches will be measured by the highest PROPER level obtained from those several branches.
2. Enterprise risk management disclosure (ERMD). The measurement of ERMD components conducted by the firm was measured using a dummy method and based on the ISO 31000:2018 Risk Management Disclosure Index. Each ERMD component disclosed by the firm was given a score of 1, while if the ERMD component was not

disclosed, it was given a score of 0. The collected scores were then summed to form a total score that indicates how many ERMD components were disclosed by the firm. The total score obtained was then divided by the total ERMD components that the firm should have disclosed (33 items). Appendix 1 shows the thirty-three items related to ERMD components according to the ISO 31000:2018 standard (Trisnawati, et al., 2023).

3. The risk management committee (RMC) is a committee that implements and oversees the firm's risk management. It is established and reports to the board of commissioners (CRMS Indonesia). The RMC variable in this study was measured using a dummy method, with a score of "1" assigned to companies that have a risk management committee, either independently or in conjunction with other committees, and a score of "0" assigned to companies that do not have a RMC.
4. Control variables include: (1) firm size and (2) observation period. Firm size indicates the size of the firm in terms of total assets (Triyono, et al., 2019). Firm size will be measured by the logarithm of the total assets owned by the firm. The second control variable in this study is the period, using a dummy method, by giving a score of "1" to the observation period of 2021, which was the year of the Covid-19 pandemic and zero to observation periods other than 2021 because it was not the year of the Covid-19 pandemic.

3.2 Population and Sampling Techniques

The population in this study was manufacturing companies listed on the Indonesia Stock Exchange. The sampling technique used was purposive sampling. Purposive sampling is based on specific criteria established by the researcher based on conceptual considerations. The sampling criteria in this study were: (1) The firm published its annual report and sustainability report for the 2021-2023 period, (2) the firm participated in PROPER activities in the 2021-2023 period, and (3) The firm generate a net profit in the 2021-2023 period

3.3 Data Analysis

Data analysis in this study will be analyzed using multiple linear regression. Tests performed include normality tests, heteroscedasticity tests, autocorrelation tests, multicollinearity tests, coefficient of determination tests, F-tests, and hypothesis tests. The following is the linear regression equation model used in this study:

$$SGRi = \alpha + \beta 1a1NPMi + \beta 1a2CRi + \beta 1a3DERi + \beta 1b1D0i + \beta 1b2D1i + \beta 1b3D2i + \beta 1b4D3i + \beta 1b5D4i + \beta 2ERMDi + \beta 3RMCi + \beta 4UPi + \beta 5PERi + \varepsilon i \quad (1)$$

Hypothesis testing is used to determine the partial effect of independent variables on dependent variables. Hypothesis testing uses a t-test with a significance level of 0.05. The hypothesis in this study is in the form of a regression equation as follows: (a) H1a is accepted if

at least one coefficient for the financial performance variable (β1a1, β1a2, β1a3) is positive and significant, (b) H1b is accepted if at least one coefficient for the environmental performance variable (β1b1, β1b2, β1b3, β1b4, β1b5) is positive and significant, (c) H2 is accepted if the coefficient for the ERMD variable is positive and significant, and (d) H3 is accepted if the coefficient for the RMC variable is positive and significant.

4. Results and Discussion

4.1. Sampling Results and Descriptive Statistics

The data population, based on 193 manufacturing sector companies listed on the Indonesia Stock Exchange (IDX), was 193. The sample size determined to meet the criteria was 47 companies with a three-year observation period, resulting in a total sample size of 141. Twelve outliers were removed from the sample, resulting in a total sample size of 129.

Table 2.
Sample Selection Results

Information	Amount
Manufacturing companies listed on the IDX	193
Does not meet the criteria:	
a. The firm did not publish its annual report and sustainability report for the 2021-2023 period.	(1)
b. The firm did not participate in PROPER activities in the 2021-2023 period and/or The firm's PROPER rating was suspended	(126)
c. The firm did not generate a net profit in the 2021-2023 period	(19)
Companies that meet the criteria	47
Observation period	3
Total observations	141
Outlier data	(12)
Amount of data used	129

Source: Processed data (2024); Appendix 2

Data descriptions are presented to determine descriptive statistics of the variables in the study. The variables used in this study are the sustainable growth rate (SGR); firm performance as measured by the financial ratios net profit margin (NPM), current ratio (CR), and debt to equity ratio (DER); and environmental performance (KL) which is described as a dummy variable D_0 - D_4 based on the PROPER rating; risk management committee (RMC), enterprise risk management disclosure (ERMD); and firm size (UP) and period as control variables. The results of descriptive statistics can be seen in Table 3 as follows.

Table 3.
Descriptive Statistics Results

Variables	N	Minimum	Maximum	Average	Standard Deviation
SGR	129	-0.0697	0.2740	0.0644	0.0599
NPM	129	0.0022	0.3210	0.0925	0.0711
CR	129	0.9266	7,9887	2,5337	1.5095
DER	129	0.0696	1.6156	0.6346	0.3720
ERMD	129	0.5758	0.9697	0.7625	0.0908
UP	129	27,4804	32,8599	29,6871	1.4449

Source: Processed data (2024)

Table 4.
Frequency Distribution of Environmental Performance Ratings

Environmental Performance Rating			
Period	Ranking	Frequency	Percentage
2021-2023	Gold (D_0)	6	4.65%
	Green (D_1)	13	10.08%
	Blue (D_2)	101	78.29%
	Red (D_3)	9	6.98%
	Black (D_4)	0	0%
The existence of the Risk Management Committee (RMC)			
Period	Existence	Frequency	Percentage
2021	There is	16	38.10%
	There isn't any	26	61.90%
2022	There is	16	39.02%
	There isn't any	25	60.98%
2023	There is	20	43.48%
	There isn't any	26	56.52%
Overall	There is	52	40.31%
	There isn't any	77	59.69%
Observation Period			
Period	Frequency		Percentage
2021	42		32.56%
2022	41		31.78%
2023	46		35.66%

Source: Processed data (2024)

4.2. Data Analysis

Several tests were conducted before the hypothesis test. The normality test was conducted using the Kolmogorov-Smirnov test and the significance value of the normality test was 0.155, indicating that the data were normally distributed. The heteroscedasticity test in this study was conducted using the Newey-West HAC test. The HAC standard errors & covariance value of 5.0000 presented in table 4.7 indicates that there are no symptoms of heteroscedasticity in the data because the HAC standard errors & covariance value is above 5% or 0.05, indicating that there are no symptoms of heteroscedasticity. The test used to conduct the autocorrelation test is the Durbin-Watson test. The results of the autocorrelation test in table 4.5 show a DU value of 1.864, Durbin-Watson (DW) of 1.888, and 4-DU of 2.136. These results indicate that the DW value is between the DU and 4-DU values, so it can be interpreted that there is no autocorrelation. The multicollinearity test was conducted by examining the VIF (Variance Inflation Factors) and tolerance values. The results of the multicollinearity test in Table 5 show that all independent and control variables in the study did not exhibit multicollinearity (tolerance values ≥ 0.10 and VIF values ≤ 10.00).

Table 5.
Multicollinearity Test Results

Independent Variables	Tolerance	VIF	Information
NPM	0.786	1,273	Free from multicollinearity
CR	0.509	1,966	Free from multicollinearity
DER	0.471	2,124	Free from multicollinearity
D_0 (Gold)	0.822	1,217	Free from multicollinearity

D_1 (Green)	0.688	1,453	Free from multicollinearity
D_3 (Red)	0.879	1,137	Free from multicollinearity
RMC	0.812	1,231	Free from multicollinearity
ERMD	0.706	1,417	Free from multicollinearity
UP	0.707	1,414	Free from multicollinearity
Period	0.942	1,061	Free from multicollinearity

Source: Processed data (2024)

The coefficient of determination test aims to determine the ability of the independent variable to explain the dependent variable. The adjusted R value is 0.117 which means the independent variables and control variables can explain 11.7% of the dependent variable, while the remaining 88.3% is explained by other variables outside the study. The F statistical test aims to test for the simultaneous significant influence (F-value 2.698 and p-value 0.005) of the independent variables on the dependent variable (Ghozali, 2018:98), which means the regression model is suitable for testing (model fit). The results of the hypothesis testing are presented in Table 6. Based on the significance levels found, only the H_{1a} was accepted (financial performance (NPM) significantly increases SGR.

Table 6.
Multiple Linear Regression Results

Variables	Unstandardized Coefficients		t	sig.	Information
	b	Standard Error			
Constant	-0.104	0.136	-0.770	0.443	
NPM	0.239	0.079	3,027	0.003	Has a significant positive impact
CR	0.001	0.005	0.214	0.831	No significant effect
DER	-0.013	0.019	-0.645	0.520	No significant effect
D_0 (Gold)	-0.059	0.026	-2,262	0.026	Has a significant negative impact
D_1 (Green)	-0.033	0.020	-1,645	0.103	No significant effect
D_3 (Red)	0.021	0.021	1,030	0.305	No significant effect
RMC	-0.004	0.011	-0.323	0.747	No significant effect
ERMD	-0.077	0.065	-1,186	0.238	No significant effect
UP	0.007	0.004	1,771	0.079	
Period	0.006	0.011	0.583	0.561	

Source: Processed data (2024)

The results of the hypothesis test in table 5 produce the following regression equation:

$$SGR_i = -0.104 + 0.239NPM_i + 0.001CR_i - 0.013DER_i - 0.059D_{0i} - 0.033D_{1i} + 0.021D_{3i} - 0.077ERMD_i - 0.004RMC_i + 0.007UP_i + 0.006PER_i + \varepsilon_i \quad \text{.....(2)}$$

4.3 Discussion

The Influence of Financial Performance on Sustainable Growth Rate

The test results (H1a) found that financial performance as measured by NPM has a positive and significant influence on SGR, this result is in accordance with the hypothesis of this study (H1a) which suspects that financial performance has a positive influence on SGR. The results of this study are in accordance with the research of Arora et al. (2018) which proves that NPM drives SGR of a firm. NPM as a proxy for firm profitability influences SGR because the higher the firm's

ability to generate profits will be able to increase the firm's assets and equity continuously so that the firm will grow further. An increase in assets that is not followed by capital expenditure is a requirement for growth (Nasim and Irnama, 2015). This can be seen in one of the sample companies, namely PT Akasha Wira International Tbk. (ADES) which had NPM levels of 28.42%, 28.27%, and 25.95% in 2021, 2022, and 2023 consistently achieved the highest SGR levels among other sample companies, namely 27.4% in 2021, 27.34% in 2022, and 22.88% in 2023.

Other companies that achieved high SGR rates besides ADES are PT Organon Pharma Indonesia Tbk. (SCPI) and PT Ultra Jaya Milk Industry & Trading Firm Tbk. (ULTJ) with SGR rates of 22.33% and 19.77%, respectively. The high SGR rates in ADES and ULTJ are supported by a fairly good NPM rate of 28.42% and 19.29%, respectively. However, in PT Organon Pharma Indonesia Tbk. (SCPI) the NPM rate obtained was 6.83%. This is because SCPI in 2023 did not distribute dividends to its shareholders, so that all profits obtained by the firm were reused for firm operations, which resulted in a high retention rate for the firm. PT Akasha Wira International Tbk. (ADES) also never distributed dividends to its shareholders, this is one of the drivers of the firm's SGR consistently achieving the highest level for 3 consecutive years. These results indicate that the NPM level is important in supporting the SGR level, but the firm's dividend policy also influences the SGR level obtained by the firm.

Mukherjee and Sen (2018) demonstrated that financial performance, including profitability, liquidity, and leverage, influences a firm's SGR. However, this study demonstrates that only profitability influences a firm's SGR. Having high liquidity and a good capital structure (leverage) does not guarantee a good SGR. This can be seen in one of the sample companies, PT Indonesia Fibreboard Industry Tbk. (IFII) in 2021. The firm had a good capital structure with a DER ratio of 0.0696 and a CR liquidity ratio of 6.4135. These values indicate excellent financial ratios, as a very low level of liabilities means the firm's interest expense is also low, thus expected to increase its profits. In terms of liquidity, the firm also has a good ability to meet its short-term obligations, thus providing no indication of financial difficulties. This indicates that effective management of firm assets to generate profits is the main factor driving the firm's SGR (Nugroho, 2020). This statement is also supported by the research results of Nugroho (2020) which proves that the profitability ratio has a significant effect on SGR. Although the influence of financial performance was found, however future research also needs to examine the effects of non-financial performance such as Balanced Scorecard performance that considers various perspectives (Handoko & Wehartaty, 2017) which has been proven to reduce conflict among stakeholders.

The Influence of Environmental Performance on Sustainable Growth Rate

The results of the research data testing indicate that environmental performance has a significant negative effect on SGR. This finding is in contrast to the research hypothesis (H1b), which predicted that environmental performance would have a positive effect on SGR. Therefore,

it can be concluded that H1b is rejected. This research finding is similar to that found by Indriati et al. (2022) that KL has a negative effect on a firm's SGR. This inconsistency with the research hypothesis is suspected because achieving good environmental performance requires significant environmental costs to meet the environmental aspects assessed in the PROPER program, such as compliance with hazardous waste management, air and water pollution control with various equipment and technologies, implementation of environmental management systems, obligations related to environmental impact analysis, and corporate social activities, thus reducing the firm's ability to grow from the profits generated.

Companies have a responsibility to align their operational actions with environmental stewardship as a form of accountability to stakeholders, especially those directly impacted by operational activities that may cause environmental damage (Lestari and Khomsiyah, 2023). Achieving good environmental performance requires significant environmental costs, which can hinder companies from achieving maximum profits (Indriati et al., 2022). This, in turn, contributes to the decline in companies' SGR levels.

The results of the study indicate that companies that achieve the gold PROPER rating, which is the highest rating in the PROPER assessment, have a negative impact on the firm's SGR, while other PROPER ratings do not have an impact on the firm's SGR. Another thing that can be seen from the results of the sample review in this study is that dividend policy also has an impact on the level of SGR obtained by a firm. This can be seen from PT Industri Jamu and Farmasi Sido Muncul Tbk. (SIDO), which received a gold PROPER rating for three consecutive years. A gold PROPER rating indicates an excellent level of environmental performance, which requires significant environmental costs to achieve. However, this is not seen in PT Industri Jamu and Farmasi Sido Muncul Tbk. (SIDO), which maintained a fairly high net profit margin (NPM) level during the three-year observation period, namely 31.36%, 28.58%, and 26.66% in 2021, 2022, and 2023. This does not occur in other companies that received a gold PROPER rating because the NPM levels obtained by the other three companies are below 10%. Based on the NPM results, SIDO should be able to achieve a high SGR rate, even though it spends a lot on environmental costs, but in reality the SGR rate obtained by the firm is quite small. This shows that a high level of environmental performance does not directly result in a firm getting a low SGR rate, there are other supporting factors that cause a firm to get a low SGR rate.

The Influence of Enterprise Risk Management Disclosure on Sustainable Growth Rate

The test results (H2) found that enterprise risk management disclosure has no effect on SGR. In other words, the second hypothesis is rejected. The inconsistency with this research hypothesis is suspected because ERMD is not yet fully recognized and understood by stakeholders because several disclosure items required by the ISO 31000:2018 risk management disclosure index are similar to the annual report disclosure regulations issued by the Financial

Services Authority (OJK), so that stakeholders do not view this as an effort made by the firm to provide an overview of the risk management implemented. The scope of disclosure in the ISO 31000:2018 risk management disclosure index is also quite broad, so some stakeholders may not be able to distinguish which parts are included in risk management disclosure or not, especially if they have not received education about risk management.

The results of this study align with Rivandi's (2018) study, which demonstrated that ERMD has no impact on firm value. This is because stakeholders do not view ERMD information as crucial for firm-related decision-making. Stakeholders do not consider ERMD a primary consideration in decision-making; other information is considered more important by stakeholders in making firm-related decisions (Rivandi, 2018).

ERMD are expected to provide stakeholders with information about a firm's financial and non-financial risk profile. This is necessary because stakeholders, especially external stakeholders, are generally unaware of the firm's strengths and potential risks, making it difficult to predict future performance and growth (Jannah et al., 2020). Disclosure of a firm's risks and risk appetite significantly helps stakeholders understand how the firm manages risk, thus assisting stakeholders in making various business decisions. ERMD information, however, appears not to be a primary stakeholder requirement for decision-making, resulting in underappreciation and merely being viewed as a disclosure that companies should make (Rivandi, 2018). This is supported by research showing that the average firm discloses 25 of the 33 ERMD items that should be disclosed, or 76.25% of the total ERMD items.

The Influence of the Risk Management Committee on Sustainable Growth Rate

The test results (H3) found that the RMC had no effect on SGR, or in other words, the third hypothesis was also rejected. This study aligns with the research of Rahmawati & Harymawan (2022), which proved that RMC had no effect on firm value. This is due to the lack of regulations requiring the establishment of RMC in non-financial companies in Indonesia, including manufacturing companies. Stakeholders consider RMC in manufacturing companies to be unfamiliar. Stakeholders perceive audit committees as capable of managing and overseeing corporate risk management (Rahmawati and Harymawan, 2022).

The study also found that of the 47 sample companies, only 20 had a RMC. Indonesian companies may not feel the need to establish RMC because the audit committee can still carry out risk management responsibilities. Establishing a RMC can lead to overlapping responsibilities within the risk management scope, as an audit committee already exists to fulfill all risk management duties and responsibilities (Rahmawati and Harymawan, 2022). This leads stakeholders to disregard the existence of a RMC in a firm, especially if an audit committee exists, as stakeholders will assume that the firm's risk management system is running well. This

argument also explains the discrepancy between the results of this study and those of Jannah et al. (2020), which demonstrated that a RMC has a significant positive impact on firm value.

5. Conclusions

Based on the research results, the conclusions of this study are as follows: (1) The test results prove that financial performance has a positive effect on SGR. Stakeholder theory is the basis for the influence of financial performance on SGR because financial performance remains a primary consideration for stakeholders in making decisions related to the firm. Achieving good financial performance will meet stakeholder expectations and also demonstrate the firm's ability to survive in the long term so that it can increase the firm's sustainable growth; (2) The test results prove that environmental performance has a negative effect on SGR which is not in accordance with the direction of the hypothesis. This finding also means that it does not support stakeholder theory, which assumes that environmental performance needs to be considered by stakeholders in making decisions related to the firm's sustainability. Stakeholders pay more attention to financial performance because they feel it can better meet their expectations, because without good financial performance, non-financial performance, including environmental performance, cannot be achieved well. Environmental performance is actually seen as burdensome for the firm to grow; and (3) The test results also prove that ERMD and RMC do not have a significant effect on sustainable growth rate (SGR). This shows that the ERMD and RMC factors do not support stakeholder theory in explaining changes in SGR. The ERMD does not affect stakeholder expectations of the firm because it is seen as a disclosure that should be made in accordance with OJK regulations. Stakeholders also do not view the RMC as a committee that impacts the firm's growth. Stakeholders consider the existence of an audit committee sufficient to effectively manage firm risks. Stakeholders view neither the ERMD nor the RMC as affecting the achievement of each stakeholder's objectives within the firm, even though both demonstrate sound risk implementation and management by the firm.

The limitations of this study are: The small number of companies participating in PROPER activities resulted in a limited sample size in the study, which may impact the research results. In addition, the blue and black PROPER rating variables could not be tested for their effect on SGR because the blue PROPER rating variable was automatically excluded by SPSS when performing a linear regression between the dependent variable and the dependent variable. Meanwhile, the effect of the black PROPER level could not be determined because no sample firm received a black PROPER level. This is suspected to be due to the lack of variation in PROPER values in these categories. Future research also is expected to consider the use of PROPER ranking measures so that it can take into account information about the order of performance achieved and be able to communicate the company's ranking or performance level better. Second, the ratio

used as a proxy for financial performance in terms of profitability, liquidity, and leverage uses only one ratio measurement, so it is possible that different research results could be obtained if using other ratio measures. Suggestions for future research include using other environmental performance measurements besides the PROPER level so that the sample used can be larger in number, using different financial performance ratios to explore the effect of other financial performance ratios on SGR and further research is expected to expand the research object by expanding the firm sector and increasing the observation period of the study. This is expected to provide different results, especially for the RMC and ERMD variables that have not had a significant effect on SGR. Banking and financial companies can be an option because banking and financial companies have been required to form RMC. Further research is expected to use other independent variables related to management strategy, dividend policy, capital structure policy, and characteristics of management/CEO to explore their influence on SGR.

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