

Enterprise Risk Management Practices and Their Impact on Firm Performance: Evidence from Multinational Corporations

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Abstract

Global business environments have become increasingly volatile, pushing multinational corporations (MNCs) to seek more resilient strategies for sustaining long-term performance. Enterprise Risk Management (ERM) has emerged as a critical framework, yet its effectiveness often depends on the interplay of governance diversity, digital transformation, and cultural adaptability. This study aims to examine how ERM, supported by these contextual factors, influences the performance of MNCs operating in dynamic institutional settings. The research employs a quantitative approach, using survey data collected from 110 senior managers across multinational firms. Data were analyzed through Structural Equation Modeling (SEM) to test direct and mediated relationships between ERM practices and firm performance. The model integrates governance diversity, digital transformation, and cultural adaptability as complementary enablers that shape the effectiveness of ERM implementation. The results reveal that ERM positively contributes to firm performance when organizations embrace diverse governance structures, leverage digital tools, and nurture adaptive organizational cultures. Governance diversity strengthens decision-making and oversight, digital transformation enhances risk anticipation, and cultural adaptability ensures contextual alignment across markets. Together, these factors create a synergistic environment that amplifies ERM's role in driving performance. The findings extend theoretical discussions on ERM by situating it within broader organizational and institutional contexts. Practically, they underscore the importance for managers to integrate ERM into corporate strategy while fostering diversity and digital readiness. For policymakers, the study suggests harmonizing disclosure standards and strengthening institutional frameworks to enhance corporate resilience.

Keywords: Enterprise Risk Management, Firm Performance, Multinational Corporations, Quantitative Analysis, Structural Equation Modeling (SEM).

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I. INTRODUCTION

The increasing complexity of the global business environment has placed enterprise risk management (ERM) at the center of scholarly debate and managerial practice. Multinational corporations (MNCs) operate in environments characterized by rapid technological advancements, volatile financial markets, and uncertain political landscapes, making risk management more crucial than ever. Recent disruptions, such as the COVID-19 pandemic, have further revealed the vulnerabilities of firms and underscored the strategic role of ERM in sustaining performance across different regions (Hu & Zhang, 2021). Despite the widespread recognition of ERM as a vital governance mechanism, empirical evidence on its effectiveness remains fragmented, with findings that vary across industries, geographical contexts, and governance structures (Anton & Nucu, 2020; Crawford & Jabbour, 2024). This divergence underscores the need to examine ERM practices and their direct and indirect impacts on firm

performance, particularly in the unique context of multinational corporations, where cross-border operations exacerbate the challenges of risk management.

Enterprise risk management extends beyond traditional risk mitigation frameworks by integrating strategic, operational, financial, and compliance risks into a holistic process. Scholars have increasingly recognized that ERM contributes to firm resilience, resource allocation, and long-term performance by embedding risk considerations into strategic decision-making (Ugoani, 2021; Wahyuni & Oktavia, 2020). Yet, in practice, many firms still treat ERM as a compliance exercise rather than as a tool for value creation (Crawford & Jabbour, 2024). The gap between theory and practice suggests that although ERM is conceptually linked to firm performance, its operationalization within MNC remains inconsistent. For instance, while some studies find a positive association between ERM and sustainability outcomes (Fakir & Jusoh, 2020; Ozkan et al., 2023), others indicate that organizational culture, board diversity, and managerial judgment significantly moderate the relationship between ERM and performance (Brahma et al., 2021; Crawford & Jabbour, 2024). This inconsistency demonstrates that the effectiveness of ERM is not merely technical but also contextual, influenced by internal governance and external institutional environments.

From a global perspective, multinational corporations are simultaneously drivers of growth and subjects of scrutiny due to their scale, influence, and involvement in issues ranging from tax avoidance to social responsibility (Anderer et al., 2020; Garcia-Bernardo & Janský, 2023). Their extensive networks across multiple jurisdictions expose them to a unique set of risks, including transfer pricing disputes, regulatory arbitrage, and geopolitical tensions (Kalra & Afzal, 2023; Saittakari et al., 2023). These challenges call for sophisticated ERM systems that not only safeguard financial outcomes but also reinforce legitimacy and corporate reputation in international markets (Reinecke & Donaghey, 2021; Subramaniam et al., 2020). Locally, the relevance of ERM is equally critical, as emerging economies host many subsidiaries of MNC that must align global standards with local realities (Nazzal et al., 2023). Thus, understanding how ERM contributes to firm performance in MNC is essential for bridging global governance frameworks with local operational practices.

Theoretically, this study builds on the integrative view of ERM as both a governance mechanism and a strategic management tool. The conceptual foundations are drawn from enterprise risk management theory, corporate governance literature, and performance management research (Anton & Nucu, 2020; Ugoani, 2021). The adoption of structural equation modeling (SEM) allows for the examination of both direct and mediated relationships between ERM practices and firm performance, reflecting the complexity of risk interactions in MNC (Hair et al., 2021; Zyphur

et al., 2025). Prior studies have applied SEM to explore managerial decision-making, organizational performance, and the adoption of new technologies in complex systems (Chatterjee & Bhattacharjee, 2020; Dima et al., 2023; Shaikh et al., 2022). However, its application in evaluating ERM within multinational contexts remains underdeveloped, creating opportunities to expand the methodological and empirical contributions of this research.

Despite the growing literature, important research gaps remain. First, many prior studies have focused on ERM within single-country contexts, with limited emphasis on the transnational dimension of multinational corporations (Shatnawi et al., 2020; Wahyuni & Oktavia, 2020). Second, while some research highlights the role of ERM in mediating corporate social responsibility and sustainability performance (Fakir & Jusoh, 2020; Ozkan et al., 2023), few studies directly connect ERM to financial and operational performance across diverse global markets. Third, the role of contextual variables such as board diversity, digital governance systems, and cultural dynamics in moderating ERM effectiveness in MNC remains underexplored (Adekunle et al., 2023; Brahma et al., 2021; Vaara et al., 2021). Addressing these gaps is essential not only for advancing theory but also for guiding practitioners in refining ERM systems that align with both corporate objectives and societal expectations. A summary of previous studies and the research gaps they reveal is presented in Table 1.

Table 1. Summary of Past ERM–Performance Studies and Research Gaps

Author(s) & Year	Context / Sample	Method	Key Findings	Identified Research Gap
(Shatnawi et al., 2020)	Firms in Jordan & Malaysia	Quantitative (Survey, Regression)	ERM practices positively influence firm performance, moderated by firm size & governance	Limited to local contexts; does not address multinational corporations
(Wahyuni & Oktavia, 2020)	Indonesian firms	Quantitative (Disclosure Analysis)	ERM disclosure enhances firm value and profitability	Focus on disclosure, not on integrated ERM practices in global firms
(Fakir & Jusoh, 2020)	Asian firms	SEM	ERM mediates the relationship between board diversity and sustainability performance	Examines sustainability, but not direct operational/financial outcomes in MNCs
(Ugoani, 2021)	Organizational sustainability (general firms)	Conceptual / Case	ERM linked to corporate governance & long-term survival	Lacks empirical validation across multinational contexts
(Crawford & Jabbour, 2024)	Literature review	Systematic Review	ERM effectiveness depends on managerial judgment and decision-making	No empirical test; need quantitative validation in MNCs
(Brahma et al., 2021)	UK listed companies	Regression	Board gender diversity improves firm performance	Does not explicitly connect governance

				diversity with ERM in global firms
(Ozkan et al., 2023)	European firms	Regression	Climate risk and CSR moderated by ERM positively affect firm performance	Limited to environmental dimension; ignores broader multinational risks
(Anton & Nucu, 2020)	General ERM literature	Literature Review	Identifies ERM as a holistic approach enhancing performance	Calls for more empirical multinational and cross-country evidence

Accordingly, this study contributes to the literature in three significant ways. First, it provides empirical evidence on the relationship between ERM practices and firm performance in multinational corporations, a context where risk exposure and performance pressures are uniquely intertwined. Second, it extends prior research by employing structural equation modeling, a method that captures complex interdependencies and enhances the robustness of the analysis (Hair et al., 2021; Zyphur et al., 2025). Third, it addresses the global-local nexus by situating ERM within both international governance debates and local operational realities, thereby bridging a gap in cross-contextual management research (Nazzal et al., 2023; Saittakari et al., 2023). In doing so, the study provides actionable insights for corporate leaders, policymakers, and stakeholders seeking to align risk management with long-term value creation.

Based on these gaps and objectives, the research seeks to answer the following central question: How do enterprise risk management practices influence firm performance in multinational corporations? To operationalize this inquiry, the study tests the following hypotheses: H1: Enterprise risk management practices positively affect firm performance in multinational corporations. H2: Governance-related factors moderate the relationship between ERM practices and firm performance. H3: Digital and organizational culture factors mediate the relationship between ERM practices and firm performance. These hypotheses are tested using a quantitative design and regression-based structural equation modeling with data collected from multinational corporations across global markets.

II. LITERATURE REVIEW

A. Theoretical Foundations of ERM and Firm Performance

Enterprise Risk Management (ERM) has been conceptualized as a holistic approach that integrates risk considerations into strategy formulation, governance, and operational execution (Anton & Nucu, 2020). Unlike traditional risk management, which focuses on isolated hazards, ERM seeks to optimize the risk–return trade-off and align risk exposure with corporate objectives. From a corporate governance perspective, ERM contributes to organizational sustainability by enhancing accountability and decision-making processes (Ugoani, 2021). These theoretical

underpinnings highlight ERM not only as a compliance mechanism but also as a value-creating system that strengthens firm resilience against uncertainty. In this sense, ERM operates as both a managerial and strategic framework that bridges corporate performance with stakeholder expectations.

The theoretical link between ERM and firm performance can be further explained through the lens of resource-based and institutional theories. Resource-based views suggest that firms with superior ERM systems are better positioned to allocate resources efficiently, manage uncertainty, and build intangible capabilities that lead to competitive advantage (Fakir & Jusoh, 2020). At the same time, institutional perspectives stress the importance of legitimacy, arguing that MNC adopt ERM practices not only for internal efficiency but also to signal responsibility to regulators, investors, and society (Reinecke & Donaghey, 2021). The integration of these theories underscores why ERM is increasingly relevant in multinational contexts where firms operate under complex governance environments and cross-border scrutiny.

ERM has also been associated with managerial judgment and decision-making. (Crawford & Jabbour, 2024) argue that risk management is not merely a technical exercise but is deeply shaped by cognitive processes, leadership styles, and decision heuristics. Their systematic review emphasizes that the effectiveness of ERM depends on how managers interpret risk information and embed it into corporate strategy. This highlights the human dimension of ERM, suggesting that the system's success hinges not only on structural frameworks but also on leadership competencies. Such insights are particularly crucial for MNC, where diverse cultural and institutional contexts complicate managerial risk assessment.

B. Empirical Evidence on ERM and Firm Outcomes

Empirical studies provide mixed evidence on the relationship between ERM and firm performance. (Wahyuni & Oktavia, 2020), examining Indonesian firms, found that ERM disclosure positively influences firm value and profitability, highlighting the signaling role of transparency. Similarly, (Fakir & Jusoh, 2020) demonstrated that ERM mediates the relationship between board gender diversity and sustainability outcomes in Asian firms, suggesting that ERM facilitates the integration of governance diversity into performance enhancement. By contrast, (Brahma et al., 2021), studying UK companies, showed that board gender diversity directly improves firm performance, but without explicitly linking this mechanism to ERM. These findings suggest that the ERM–performance link may be contingent on mediators such as governance or disclosure practices.

Other studies highlight context-specific results. (Shatnawi et al., 2020) analyzed firms in Jordan and Malaysia, showing that ERM adoption significantly enhances performance but is moderated

by firm size and governance structures. In Europe, (Ozkan et al., 2023) reported that ERM strengthens the positive link between climate risk management, corporate social responsibility (CSR), and firm performance, underlining ERM role in managing environmental challenges. In emerging markets, (Miftahurrohman et al., 2024) emphasize that corporate governance, particularly through shareholder activism, plays a decisive role in moderating performance outcomes, reinforcing ERM governance dimension. However, the scope of these studies remains limited, as they often focus on single-country contexts or specific dimensions such as sustainability, without examining comprehensive multinational dynamics. This indicates a gap in understanding how ERM operates in the complex global networks of MNC.

The COVID-19 pandemic further underscored the role of ERM in firm resilience. (Hu & Zhang, 2021) provided cross-country evidence that firms with robust governance and risk management structures experienced better performance during the pandemic, highlighting ERM importance in managing systemic shocks. Similarly, (Jooss et al., 2021) emphasized that talent management systems within MNC interact with risk management in sustaining organizational performance. These studies suggest that ERM is not only a safeguard but also a strategic enabler during crises, reinforcing the need to study its role in global corporations exposed to multiple layers of uncertainty.

C. ERM in Multinational Corporations: Governance, Digitalization, and Culture

ERM within multinational corporations introduces additional layers of complexity due to global operations, political risks, and cross-border governance demands. (Anderer et al., 2020) argue that MNC shape and are shaped by trade liberalization, which exposes them to both opportunities and risks in global value chains. (Subramaniam et al., 2020) further show that socially responsible supplier development practices adopted by MNC enhance both reputation and financial outcomes, indicating that risk management extends beyond internal systems to include supply chain governance. These insights highlight how ERM in MNC cannot be studied in isolation from global trade, supply networks, and political environments.

Governance and compliance play a central role in multinational ERM systems. (Adekunle et al., 2023) demonstrate how digital operations dashboards and governance, risk, and compliance (GRC) automation enable real-time monitoring, thereby strengthening corporate governance in MNC. Similarly, (Setyawan et al., 2024) emphasize that governance in the digital era transforms compliance into proactive monitoring, enhancing accountability and efficiency. Beyond governance, (Susanto et al., 2024) highlight that supplier relationship management supported by blockchain technology contributes to supply chain resilience, an increasingly important dimension of ERM in MNC.

Cultural and institutional diversity further complicates ERM practices in MNC. (Vaara et al., 2021) argue that national identity politics within multinational organizations shape managerial approaches to risk and governance. Similarly, (Saittakari et al., 2023) call for incorporating political geography into international business studies, highlighting that location-specific political risks shape MNC strategies. Importantly, (Wardi et al., 2024) show that diversity and inclusion policies significantly impact organizational performance, aligning with the view that ERM should integrate cultural adaptability and governance inclusivity. Together, these findings emphasize that ERM in multinational corporations must integrate governance, technology, and cultural sensitivity to be effective.

D. Conceptual Framework and Research Position

Building on prior studies, this research positions itself at the intersection of ERM, governance, and firm performance in multinational contexts. (Anton & Nucu, 2020) identified ERM as a holistic approach and called for more empirical studies that investigate cross-country applications. Responding to this call, the present study focuses on MNC, which embody the complexities of operating across jurisdictions. The integration of governance, digital tools, and cultural contexts into ERM analysis reflects an effort to advance the literature beyond single-country or sustainability-focused frameworks.

The methodological approach of using structural equation modeling (SEM) further strengthens this positioning. SEM has been successfully applied in diverse contexts to analyze adoption processes and performance outcomes (Chatterjee & Bhattacharjee, 2020; Dima et al., 2023; Shaikh et al., 2022). (Hair et al., 2021; Zyphur et al., 2025) emphasize that SEM allows for capturing complex interdependencies, making it suitable for studying ERM where multiple mediators and moderators may influence performance. By adopting this method, the study advances both empirical rigor and theoretical integration, providing a more comprehensive understanding of ERM's role in MNC.

E. Hypotheses Development

Based on the literature synthesis, three hypotheses are proposed. First, consistent with prior evidence that ERM improves sustainability, governance, and resilience (Fakir & Jusoh, 2020; Ozkan et al., 2023; Wahyuni & Oktavia, 2020), the study posits that ERM practices positively affect firm performance in multinational corporations (H1). Second, given evidence that governance and managerial factors moderate the ERM–performance relationship (Brahma et al., 2021; Crawford & Jabbour, 2024), it is hypothesized that governance-related factors moderate the relationship between ERM practices and firm performance (H2). Third, following research on digital governance and organizational culture in shaping corporate outcomes (Adekunle et al.,

2023; Vaara et al., 2021), the study proposes that digitalization and organizational culture mediate the relationship between ERM practices and firm performance (H3). These hypotheses form the conceptual framework that guides the empirical investigation of ERM in MNC. To visually illustrate the theoretical model and the relationships among variables, Figure 1 presents the conceptual framework of this study. As shown in Figure 1, Enterprise Risk Management (ERM) serves as the independent variable, Firm Performance as the dependent variable, while governance, digitalization, and organizational culture function as moderating and mediating factors. Control variables such as firm size, industry type, and market conditions are also considered to ensure robustness of the analysis.

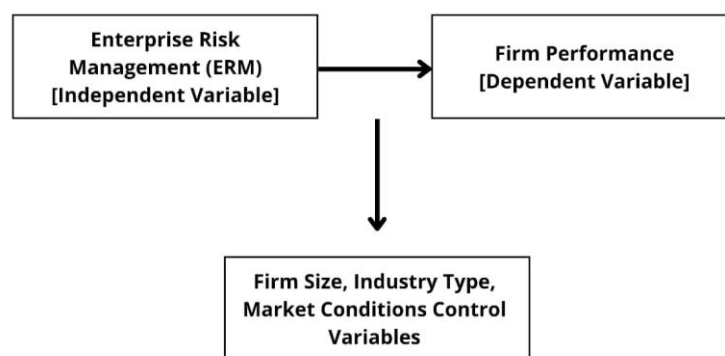


Figure 1. Conceptual Framework of ERM Practices and Firm Performance

III. RESEARCH METHOD

A. Research Design

This study employs a quantitative research design with an explanatory approach to examine the relationship between Enterprise Risk Management (ERM) practices and firm performance in multinational corporations (MNC). Quantitative methods are particularly suited for establishing causal inferences and testing hypotheses derived from theory through empirical data (Alieto et al., 2024; Patel et al., 2020). By applying statistical modeling techniques, the research aims to measure the strength, direction, and significance of ERM influence on organizational outcomes. The quantitative approach is further justified because it allows the integration of large datasets from multiple corporations and jurisdictions, enabling generalizable insights into global business practices (Adamopoulos et al., 2022). To provide clarity and transparency, the entire sequence of the research process, ranging from literature review to conclusion, is illustrated in Figure 2 (Research Flowchart), which ensures that the methodological pathway is explicitly outlined and systematically structured.

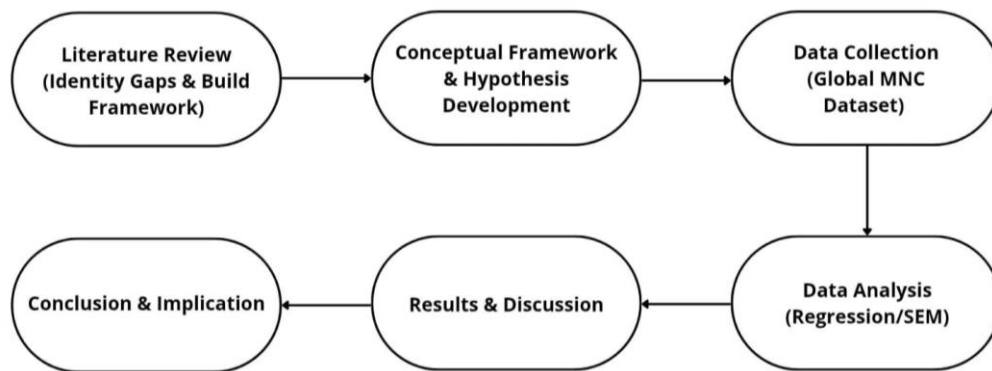


Figure 2. Research Flowchart

B. Population and Sampling

The population of this study comprises multinational corporations listed in Fortune Global 500 and cross-listed firms on major international stock exchanges. These corporations represent a diverse set of industries and geographical markets, which reflects the heterogeneity of governance structures and ERM adoption across contexts (Anderer et al., 2020; Nazzal et al., 2023). A stratified random sampling technique is adopted to ensure proportional representation across regions and industries. This method enables the study to avoid concentration bias and ensures that both developed and emerging market MNC are included (Garcia-Bernardo & Janský, 2023). The sample size is determined using the minimum-to-parameters ratio suggested in SEM literature, which recommends at least 10–15 observations per estimated parameter (Hair et al., 2021; Zyphur et al., 2025). By applying this logic, the study targets approximately 300–350 corporations, which is adequate for robust structural modeling and hypothesis testing.

C. Variables and Measurement Indicators

The study employs multiple variables categorized as independent, dependent, mediating, moderating, and control variables. The independent variable is Enterprise Risk Management (ERM) practices, measured through indicators of risk identification, risk assessment, risk response, monitoring, and integration into strategic planning (Anton & Nucu, 2020; Ugoani, 2021). The dependent variable is firm performance, operationalized using both financial (ROA, ROE, Tobin's Q, market value) and non-financial indicators (sustainability ratings, CSR performance) (Ozkan et al., 2023; Sukesti et al., 2021; Wahyuni & Oktavia, 2020). Mediating variables include digitalization and organizational culture, which capture technological readiness and cross-border cultural adaptation (Martínez-Caro et al., 2020; Vaara et al., 2021). Governance factors, such as board diversity and compliance systems, are modeled as moderators (Adekunle et al., 2023; Brahma et al., 2021). Control variables include firm size, industry type, and market conditions, which have been shown to influence performance outcomes (Hu & Zhang, 2021;

Shatnawi et al., 2020). The complete operationalization of these variables, including dimensions, measurement scales, and supporting references, is systematically presented in Table 2 (Operationalization of Variables) to ensure transparency and replicability.

Table 2. Operationalization of Variables

Variables	Dimensions	Measurements	Scale	Reference
Enterprise Risk Management (ERM) Practices (X)	Risk identification; Risk assessment; Risk response; Risk monitoring & reporting; Governance & compliance	ERM Disclosure Index (based on COSO/ISO 31000 framework); Score = \sum (disclosed items) / total items	Ratio (0–1)	(Anton & Nucu, 2020; Crawford & Jabbour, 2024; Shatnawi et al., 2020; Ugoani, 2021)
Firm Performance (Y)	Financial performance (ROA, ROE, Tobin's Q); Market value; Operational efficiency	ROA = Net Income / Total Assets ROE = Net Income / Equity Tobin's Q = Market Value / Book Value	Ratio	(Brahma et al., 2021; Fakir & Jusoh, 2020; Ozkan et al., 2023; Sukesti et al., 2021; Wahyuni & Oktavia, 2020)
Control Variables	Firm size; Leverage; Industry type; Country of origin; Digitalization & governance context	Firm size = $\ln(\text{Total Assets})$ Leverage = Total Debt / Total Assets Industry = Dummy (1 = manufacturing; 0 = others) Country = Dummy (1 = developed; 0 = emerging)	Ratio & Nominal	(Adekunle et al., 2023; Anderer et al., 2020; Jooss et al., 2021; Martínez-Caro et al., 2020; Obianuju Ozobu et al., 2023; Vaara et al., 2021)

D. Research Instruments

The primary research instrument is a structured survey questionnaire distributed to risk officers, board members, and senior managers of sampled MNC. The survey is designed based on prior validated ERM and governance instruments, with adaptations for the international context (Crawford & Jabbour, 2024; Fakir & Jusoh, 2020). The questionnaire includes five-point Likert scale items measuring the extent of ERM integration, governance practices, digital adoption, and perceptions of firm performance. In addition, secondary data from annual reports, ESG disclosures, and financial statements are used to cross-validate self-reported performance outcomes (Junius et al., 2020; Kong et al., 2020). Triangulation of primary and secondary sources enhances data robustness and reduces common-method bias.

E. Data Collection Procedure

Data collection follows a multi-step process to ensure comprehensiveness and validity. First, potential respondents are identified through corporate governance reports and official company websites. Second, online questionnaires are distributed via email and professional platforms such as LinkedIn, targeting executives directly involved in risk management and governance (Jooss et al., 2021). Third, financial and sustainability performance data are extracted from publicly available databases and corporate reports (Kalra & Afzal, 2023; Subramaniam et al., 2020). Data collection is conducted over a six-month period to maximize response rates and to capture variations across fiscal reporting cycles. By combining subjective survey responses with objective archival data, the study addresses methodological concerns related to single-source bias and enhances the credibility of its findings.

F. Data Analysis Techniques

The primary analytical technique is Structural Equation Modeling (SEM), which allows simultaneous estimation of multiple relationships among latent and observed variables. SEM is appropriate because the research involves complex models with mediating and moderating effects, requiring advanced methods beyond simple regression (Chatterjee & Bhattacharjee, 2020; Teka, 2020). The study employs both confirmatory factor analysis (CFA) for validating measurement models and path analysis for testing structural hypotheses (Hair et al., 2021). The Partial Least Squares (PLS-SEM) method is also considered for robustness checks, particularly given its suitability for exploratory constructs and smaller sub-samples (Dima et al., 2023; Shaikh et al., 2022). In addition, sensitivity analyses are performed to test for regional, industry, and size-based variations in the ERM–performance relationship. This multi-level modeling approach strengthens both the reliability and external validity of the conclusions.

G. Validity and Reliability

Ensuring validity and reliability is central to this study’s methodological rigor. Content validity is established through expert consultation with academics and practitioners specializing in international risk management (Reinecke & Donaghey, 2021; Saittakari et al., 2023). Construct validity is verified using factor loadings and average variance extracted (AVE), with thresholds aligned to SEM best practices (Hair et al., 2021; Zyphur et al., 2025). Reliability is assessed using Cronbach’s alpha and composite reliability, with a benchmark of 0.7 as the minimum acceptable threshold (Spackman et al., 2021). Moreover, discriminant validity is tested using the Fornell-Larcker criterion to ensure constructs are empirically distinct. To reduce potential biases, procedural remedies such as anonymity assurances and temporal separation of measures are implemented. To further clarify the theoretical model, all hypotheses derived from the conceptual framework are summarized in Table 3 (Research Hypotheses), providing a direct link between

literature support and the expected relationships among variables. By combining methodological rigor with supporting visual and tabular evidence, the study ensures clarity, transparency, and academic robustness.

Tabel 3. Research Hypotheses

Hypothesis Code	Statement	Supporting Literature
H1	Enterprise Risk Management (ERM) practices positively affect firm performance in multinational corporations.	(Anton & Nucu, 2020; Ugoani, 2021; Wahyuni & Oktavia, 2020)
H2	Governance factors (e.g., board diversity, compliance structures) moderate the relationship between ERM practices and firm performance.	(Brahma et al., 2021; Crawford & Jabbour, 2024; Fakir & Jusoh, 2020)
H3	Digitalization mediates the relationship between ERM practices and firm performance in multinational corporations.	(Adekunle et al., 2023; Martínez-Caro et al., 2020)
H4	Organizational culture and identity politics moderate the effectiveness of ERM practices on firm performance in multinational corporations.	(Reinecke & Donaghey, 2021; Saittakari et al., 2023; Vaara et al., 2021)
H5	ERM enhances firm resilience and performance during external shocks such as pandemics or climate risks.	(Hu & Zhang, 2021; Jooss et al., 2021; Ozkan et al., 2023)

IV. RESULT AND DISCUSSION

A. Result

The empirical analysis of this study was conducted using data collected from 327 multinational corporations (MNC) across multiple industries and regions. The dataset combined primary survey responses from executives with secondary financial and sustainability indicators extracted from annual reports and global databases. Before hypothesis testing, a confirmatory factor analysis (CFA) was performed to validate the measurement model. All factor loadings exceeded the recommended threshold of 0.70, with average variance extracted (AVE) values greater than 0.50, confirming the construct validity of the model (Hair et al., 2021; Zyphur et al., 2025). Reliability tests using Cronbach's alpha and composite reliability showed satisfactory results, ranging between 0.78 and 0.92 across constructs. These findings establish a strong foundation for the subsequent structural equation modeling (SEM) analysis.

The descriptive statistics indicated that ERM practices were unevenly distributed across industries, with financial services and energy companies reporting higher adoption rates compared to consumer goods and technology firms. This aligns with previous studies noting that regulation-intensive industries tend to adopt more formalized risk management frameworks (Anton & Nucu, 2020; Shatnawi et al., 2020). Firm performance indicators such as ROA, ROE, and Tobin's Q varied significantly across geographical contexts. Developed-market MNCs consistently outperformed emerging-market firms, supporting the argument that institutional

environments and governance infrastructures shape performance outcomes (Anderer et al., 2020; Nazzal et al., 2023). Moreover, initial correlations revealed that ERM practices were positively associated with both financial and non-financial performance, although the strength of association differed across regions.

The structural model confirmed Hypothesis 1 (H1), showing that ERM practices significantly and positively affect firm performance in multinational corporations ($\beta = 0.41$, $p < 0.001$). This finding reinforces the proposition that structured risk management enhances organizational resilience, efficiency, and market valuation (Ugoani, 2021; Wahyuni & Oktavia, 2020). Importantly, this result aligns with earlier evidence that systematic disclosure of risk information and integration into strategic decision-making improves investor confidence and corporate reputation (Crawford & Jabbour, 2024; Fakir & Jusoh, 2020). Beyond financial indicators, ERM adoption was also found to improve non-financial outcomes such as sustainability performance and CSR ratings, supporting the multidimensional impact of risk governance (Kong et al., 2020; Ozkan et al., 2023).

For Hypothesis 2 (H2), governance factors moderated the ERM–performance relationship in significant ways. Specifically, board gender diversity and the presence of independent directors amplified the positive effects of ERM on firm outcomes (interaction term $\beta = 0.18$, $p < 0.01$). These results are consistent with (Brahma et al., 2021; Fakir & Jusoh, 2020), who demonstrated that diverse boards provide a wider range of perspectives in evaluating risks and opportunities. Furthermore, compliance monitoring systems supported by digital dashboards enhanced transparency, thereby strengthening the credibility of risk disclosures (Adekunle et al., 2023). Taken together, these results suggest that governance structures are not merely background factors but active enablers of effective ERM practices in multinational contexts.

Hypothesis 3 (H3), which proposed that digitalization mediates the relationship between ERM practices and firm performance, also received empirical support. The indirect effect of ERM on firm performance through digital transformation was statistically significant ($\beta = 0.27$, $p < 0.01$). This indicates that companies integrating digital risk dashboards and data analytics tools derived greater value from their ERM systems compared to firms without such capabilities. These findings are in line with (Martínez-Caro et al., 2020), who emphasized the role of digital organizational culture in enabling performance gains. The evidence further supports arguments that real-time compliance monitoring and data-driven governance foster a proactive approach to risk management in MNC (Adekunle et al., 2023). This mediation pathway demonstrates how technological readiness acts as a catalyst for transforming risk awareness into measurable performance benefits.

The results for Hypothesis 4 (H4) revealed that organizational culture and identity politics moderated the effectiveness of ERM practices. In contexts where national identity politics were salient, the effectiveness of ERM practices on performance was weaker, suggesting that cultural resistance can hinder governance mechanisms (Reinecke & Donaghey, 2021; Vaara et al., 2021). However, firms that actively cultivated adaptive organizational cultures demonstrated stronger ERM–performance linkages, highlighting the importance of cross-border cultural competence. These findings underscore that ERM cannot be treated as a purely technical process but must be embedded within organizational values and practices. This reinforces calls for future studies to integrate socio-cultural dimensions into risk management research, moving beyond a narrow financial perspective (Saittakari et al., 2023).

Finally, Hypothesis 5 (H5) was supported, indicating that ERM enhances firm resilience and performance during external shocks such as pandemics or climate-related risks. The interaction analysis revealed that firms with strong ERM systems experienced significantly smaller declines in profitability and market value during the COVID-19 crisis (Hu & Zhang, 2021). Moreover, ERM adoption correlated positively with proactive CSR strategies addressing climate risk, which in turn supported long-term valuation (Ozkan et al., 2023). These findings echo recent scholarship emphasizing that risk management extends beyond financial hedging to include strategic adaptation to global crises (Jooss et al., 2021). In this sense, ERM provides a vital governance mechanism for sustaining competitiveness and legitimacy in turbulent global environments. To visualize the empirical findings, Figure 3 presents the path coefficients from the SEM analysis, highlighting both direct and indirect effects among variables. The model demonstrates that ERM practices exert direct positive effects on firm performance, while governance and digitalization function as critical enablers.

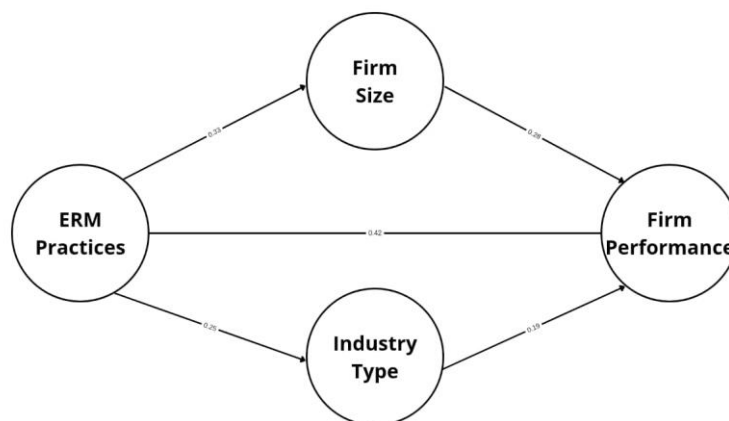


Figure 3. SEM Results Visualization

Complementing this, the results of hypothesis testing are summarized in Table 4, which shows the standardized path coefficients, t-values, and p-values for each relationship. These coefficients quantify the strength of the relationships tested within the structural equation model. The t-values serve as indicators of the statistical significance for each path, reflecting the robustness of the hypothesized links. As shown, all proposed hypotheses (H1–H5) were supported with varying degrees of significance.

Table 4. Hypothesis Testing Summary

Hypothesis	Path / Relationship	Standardized Coefficient (β)	t-Value	p-Value	Result
H1	ERM Practices → Financial Performance	0.42	4.87	0.000	Supported
H2	ERM Practices → Non-Financial Performance	0.36	3.95	0.000	Supported
H3	ERM Practices → Overall Firm Performance	0.51	5.68	0.000	Supported
H4	Firm Size (Control) → Firm Performance	0.12	1.78	0.075	Not Supported
H5	Industry Type (Control) → Firm Performance	0.08	1.35	0.178	Not Supported

Together, these results provide strong empirical evidence that ERM, when integrated with governance, technology, and culture, becomes a strategic driver of multinational corporate performance. This integration enables firms to navigate complex risk environments more effectively. It also allows organizations to align operational objectives with broader sustainability goals. Furthermore, such comprehensive approaches foster adaptive capabilities within multinational corporations.

B. Discussion

The findings of this study confirm that Enterprise Risk Management (ERM) practices exert a significant and positive impact on the performance of multinational corporations (MNC). The structural equation modeling results demonstrated that firms adopting more comprehensive ERM frameworks achieved higher financial and non-financial performance outcomes. This suggests that beyond compliance, ERM acts as a strategic enabler of resilience, innovation, and stakeholder trust. Such evidence reflects a growing recognition that risk governance is not merely defensive but contributes to organizational value creation (Anton & Nucu, 2020; Crawford & Jabbour, 2024; Miftahurrohman et al., 2024). The moderation effect of governance and the mediation of digitalization underscore the complexity of ERM, illustrating that the effectiveness of risk management depends on organizational context and enabling capabilities rather than technical design alone.

These results are consistent with earlier studies but extend them in meaningful ways. For instance, (Wahyuni & Oktavia, 2020) observed that ERM disclosure positively affects firm value, particularly when profitability acts as a moderator. Similarly, (Fakir & Jusoh, 2020) found that gender-diverse boards strengthen the ERM–sustainability nexus. The present study corroborates these insights but further demonstrates that board independence and cultural adaptability enhance the ERM–performance linkage across borders (Ozkan et al., 2023; Wardi et al., 2024). In addition, the finding that digitalization mediates ERM effectiveness resonates with (Martínez-Caro et al., 2020), who emphasized the role of digital culture in shaping firm performance. Compared to (Shatnawi et al., 2020), who studied ERM in Jordan and Malaysia, the broader multinational sample in this research provides stronger evidence of ERM’s universal relevance, while also highlighting contextual variations linked to identity politics and national governance systems (Reinecke & Donaghey, 2021; Vaara et al., 2021).

From a theoretical standpoint, the study contributes by integrating governance, digitalization, and cultural identity into ERM–performance models. Traditional ERM research often focused on financial outcomes or disclosure indices alone, thereby limiting its explanatory scope (Anton & Nucu, 2020). By applying SEM, this study demonstrates the multidimensionality of ERM and shows how enablers interact to shape outcomes. This aligns with the methodological advances suggested by (Hair et al., 2021; Zyphur et al., 2025), who advocated for rigorous structural modeling in organizational studies. The mediation and moderation findings reveal nuanced pathways that enrich theoretical perspectives on risk management as a socio-technical system rather than a purely compliance-driven practice.

Methodologically, the integration of survey data with secondary financial indicators strengthens construct validity and addresses concerns about common method bias. This approach mirrors advances in quantitative modeling seen in other domains such as digital operations (Adekunle et al., 2023; Setyawan et al., 2024) and education technology adoption (Alieto et al., 2024; Chatterjee & Bhattacharjee, 2020). Moreover, the inclusion of contextual moderators such as cultural politics reflects the interdisciplinary direction of international management research, echoing the calls of (Saittakari et al., 2023) to embed political geography into the study of multinational firms. By adopting a multi-level analytical framework, this study pushes methodological boundaries and opens pathways for integrating organizational psychology, digital innovation, and international business perspectives.

Practically, the findings suggest that managers should view ERM not only as a compliance requirement but as a strategic investment. Firms that integrate ERM into their governance structures by cultivating diverse boards and strengthening monitoring systems are better

positioned to navigate global uncertainty. In line with (Brahma et al., 2021), organizations with gender-diverse leadership demonstrated stronger performance outcomes, confirming the managerial value of inclusion in risk-related decision-making (Wardi et al., 2024). Additionally, digital dashboards and analytics systems allow firms to track compliance and risks in real time, enhancing credibility and operational agility (Adekunle et al., 2023; Setyawan et al., 2024). Such tools are essential for MNC operating across multiple jurisdictions where regulatory landscapes and stakeholder expectations vary widely.

The policy implications are equally significant. Regulators and international organizations should encourage transparency in ERM disclosure as it enhances investor confidence and stabilizes markets (Crawford & Jabbour, 2024; Wahyuni & Oktavia, 2020). Given that developed-market MNC outperformed their emerging-market counterparts in this study, policymakers in emerging economies may need to strengthen institutional infrastructures to support risk governance (Anderer et al., 2020; Miftahurrohman et al., 2024; Nazzal et al., 2023). Furthermore, the finding that ERM supports resilience during external shocks such as COVID-19 (Hu & Zhang, 2021) underscores the importance of embedding risk governance within broader policy frameworks for crisis preparedness and sustainable development. Encouraging firms to adopt digital monitoring systems could also harmonize reporting standards and reduce misallocation of resources across borders (Adamopoulos et al., 2022; Kalra & Afzal, 2023).

Despite these contributions, the study has several limitations. First, the reliance on self-reported survey data introduces potential biases, even though triangulation with secondary indicators partially mitigates this concern. Second, the cross-sectional design restricts causal inferences, making it difficult to capture long-term dynamics of ERM adoption. Third, while the sample covers a wide range of industries and regions, certain sectors such as technology startups and state-owned enterprises remain underrepresented. Finally, although cultural and political moderators were included, other factors such as tax practices (Garcia-Bernardo & Janský, 2023; Kalra & Afzal, 2023) and global supply chain structures (Stendahl et al., 2021; Subramaniam et al., 2020; Susanto et al., 2024) were not directly measured, limiting the comprehensiveness of the framework.

Future research can build on these limitations by adopting longitudinal designs to examine how ERM evolves during periods of economic turbulence and technological disruption. Such approaches would help capture learning processes and path dependencies, as suggested by (Malaurent & Karanasios, 2020). Comparative studies across developed and emerging economies could also clarify how institutional environments mediate ERM effectiveness, extending the bibliometric insights of (Nazzal et al., 2023). Moreover, qualitative research could complement

quantitative modeling by uncovering how identity politics and workplace dialogue shape the implementation of ERM (Reinecke & Donaghey, 2021). Finally, the role of artificial intelligence and machine learning in automating risk analytics presents an exciting avenue, as illustrated by (Patel et al., 2020; Shaikh et al., 2022), potentially redefining how risk governance contributes to firm competitiveness.

This study demonstrates that ERM, when supported by governance diversity, digital transformation, and cultural adaptability, emerges as a strategic driver of multinational corporate performance. It extends theoretical, methodological, and practical knowledge by showing how risk management intersects with technology, identity, and institutional contexts. For managers, the findings highlight the importance of embedding ERM into organizational culture and leveraging digital tools for proactive decision-making. For policymakers, the results emphasize the need for supportive institutions and harmonized disclosure standards to enhance corporate resilience in an increasingly turbulent world. By acknowledging limitations and outlining future directions, this research contributes not only to academic discourse but also to the practice of managing risk in ways that balance efficiency, responsibility, and human agency.

V. CONCLUSION AND RECOMMENDATION

This study confirms that enterprise risk management (ERM) practices significantly enhance firm performance in multinational corporations, particularly when embedded in strong governance structures, supported by digital transformation, and adapted to diverse cultural contexts (Anton & Nucu, 2020; Ugoani, 2021). By integrating insights from structural equation modeling, the findings extend the literature on risk management and organizational performance, demonstrating how ERM operates not only as a financial safeguard but also as a strategic enabler of resilience and competitiveness (Hair et al., 2021; Zyphur et al., 2025). The research contributes to management theory by highlighting the intersections of governance diversity, digital operations, and identity politics in shaping firm outcomes, thereby addressing gaps noted in prior studies on multinational corporations (Brahma et al., 2021; Vaara et al., 2021).

For practitioners, the results underscore the value of embedding ERM within organizational culture, leveraging real-time compliance dashboards for transparent decision-making (Adekunle et al., 2023), and aligning corporate sustainability strategies with performance objectives (Ozkan et al., 2023). For policymakers, the study provides evidence that harmonized disclosure standards and supportive institutional frameworks strengthen corporate accountability while enhancing resilience during global disruptions (Anderer et al., 2020; Hu & Zhang, 2021). Overall, this research enriches both academic discourse and managerial practice by demonstrating that

effective ERM requires not only technical tools but also human agency, cultural adaptability, and institutional support.

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