

Analysis of the Influence of ESG Score and Digital Financial Literacy on Company Financial Performance with Corporate Risk-Taking as a Mediating Variable

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ABSTRACT

This study investigates the influence of Environmental, Social, and Governance (ESG) Score and Digital banking Literacy on Financial Performance, with Corporate Risk Taking serving as a mediating variable within the Indonesian banking sector. The research methodology employs a quantitative approach, with samples purposively picked from financial sector businesses listed on the IDX between 2020 and 2024. Data analysis included multiple linear regression approaches, and the mediation effect was assessed using the Baron & Kenny method alongside the Sobel test, processed via SPSS 25 software. The study's findings demonstrate that ESG Score and Digital Financial Literacy significantly enhance the company's Financial Performance. Corporate Risk-Taking is demonstrated to somewhat mediate the association between ESG Score and Financial Performance, and totally mediate the association between Digital Financial Literacy and Financial Performance. This discovery underscores the necessity of incorporating sustainability elements and digital financial literacy into corporate strategy to enhance financial performance via effective risk management. This study enhances financial management literature by amalgamating ESG and digital transformation viewpoints within the framework of corporate risk-taking. The study's added value is the utilisation of Corporate Risk-Taking as a mediating mechanism that elucidates the impact of ESG Score and Digital Financial Literacy on the Financial Performance of financial sector organisations in the digital age.

Keywords: *Esg score; Digital; Financial literacy; Corporate risk-taking; Financial performance*

INTRODUCTION

Digital transformation and increasing awareness of sustainability have fundamentally changed the landscape of the financial industry. The financial sector in Indonesia faces the dual challenge of adapting to the digital revolution while meeting the demands of sustainable business practices. Environmental, Social, and Governance (ESG) has become a key parameter in evaluating company performance, while the acceleration of digitalization drives the urgency of increasing digital financial literacy (J. Wang et al., 2023), (Qi & Chu, 2022). This phenomenon creates new complexities in corporate risk taking which ultimately affects the Company's financial performance (Högberg & Willermark, 2023).

Amidst the increasingly massive penetration of financial technology, Bank Indonesia recorded a growth in digital banking transactions reaching 17.8% in 2023, with a total transaction value exceeding IDR 51,000 trillion. However, the Financial Services Authority (OJK) reported that the digital financial literacy index of the Indonesian people is still at 40.2%. This gap shows the urgency to improve the understanding and implementation of digital financial literacy, not only at the consumer level but also at the corporate level (Valensya Kakunsi et al., 1370).

Parallel to digital transformation, ESG implementation in Indonesia has experienced significant growth. Based on MSCI ESG Research data, Indonesian financial sector companies have shown an average increase in ESG scores of 15% in the last three years. However, the relationship between ESG scores and financial performance still shows mixed results. Several previous studies such as (Hidayatul Aisyah Nur Rohman et al., 2024) And (Ardiansyah, 2024) found a positive relationship between ESG and financial performance, while other studies such as (Priandari et al., 2024) showed insignificant results.

Research gaps are identified in several aspects. First, the majority of previous studies analyze the influence of ESG and digital financial literacy separately on financial performance. Second, the role of corporate risk-taking (Hirt et al., 2021), (J. Wang et al., 2023) as a mechanism that explains how ESG and digital financial literacy affect financial performance has not been comprehensively explored. Third, the unique context of the Indonesian financial sector with its dual banking system characteristics and varying levels of technology adoption

provides a different research setting from previous studies (Wilson & Cunliffe, 2022), (Bae et al., 2018), (M. B. Alexandri, 2022).

The urgency of this research is increasingly relevant given the global pressure to adopt ESG practices and the increasingly intensive digital transformation (D. Wang & Xia, 2024), (Wei & Zheng, 2024). The World Economic Forum (WEF) predicts that by 2025, more than 75% of global financial transactions will be digital-based, while institutional investors increasingly prioritize companies with high ESG scores. In Indonesia, the OJK has issued a 2021-2025 sustainable finance roadmap that requires financial institutions to integrate ESG aspects into their operations.

This study proposes a new conceptual framework that integrates ESG score and digital financial literacy as determinants of financial performance, with corporate risk-taking as a mediating variable (M. B. S. Alexandri, 2021), (Supriyanto et al., 2023). This approach is based on stakeholder theory which emphasizes the importance of considering the interests of all stakeholders, as well as resource-based view theory which explains how strategic resources such as digital capabilities and ESG practices can create competitive advantage (Sugiharti, 2019), (Suharyani, 2019), (Noerirawan & Muid, 2012), (Supriyanto et al., 2021), (Rifaldi & Kurniawan, 2024).

The methodological design in this research applies a quantitative model by utilizing panel information sourced from financial institutions listed as issuers on the IDX throughout 2020 to 2024. The use of the most recent five-year period allows for a comprehensive analysis of trends and patterns of relationships between variables. ESG scores are measured using data from MSCI ESG Research, while digital financial literacy is operationalized through a composite index that includes three main dimensions. Corporate risk-taking is measured using a combination of Z-score, stock return volatility, and R&D intensity (Rita et al., 2010), (Situmeang And Muharam, 2015), (Sari et al., 2017), (Liummah et al., 2012).

This research is projected to have a significant impact in the academic and implementation realms. In the academic aspect, this study expands the knowledge base in the field of financial management by combining ESG insights and financial digitalization in the realm of corporate risk decision-making. From the implementation side, the study results can be used as a strategic reference for financial managers in optimizing the ESG approach and digital transformation to improve financial performance. Meanwhile, for the authorities, the research findings can be used as considerations in formulating regulations that facilitate the implementation of ESG and understanding of digital finance in the financial industry in Indonesia.

LITERATURE REVIEW

Digital Banking Theory

Digital Banking Theory explains the transformation of banking services from traditional models to digital platforms that allow customers to access financial services online. Banks have been motivated to implement digital systems in order to enhance operational efficiency and consumer satisfaction as a result of the advancements in information and communication technology. Digital banking not only expands the reach of financial services to previously marginalised communities but also reduces transaction costs, as indicated by previous studies. Understanding digital banking is pertinent in the context of this study, as digital financial literacy can impact the manner in which financial institutions optimise technology to enhance their financial performance. In addition, the adoption of digital banking is also related to corporate risk-taking, because investment in new technologies often requires careful consideration of risks (Indriasari et al., 2022; Rithmaya et al., 2024; Toto Sugihyanto et al., 2022).

Financial Technology Innovation Theory

Financial Technology Innovation Theory focuses on innovations in financial services enabled by technological developments. These innovations include digital payments, online loans, technology-based investment management, and other financial services that utilize digital platforms. This theory emphasizes that fintech innovations can increase efficiency, reduce costs, and create added value for customers. In the context of the study, digital financial literacy is an important factor in understanding how financial companies can utilize fintech innovations to improve their financial performance. In addition, fintech innovations can also affect the level of risk taking of companies, because the adoption of new technologies often requires large investments and risky strategic changes (Anshari et al., 2020; Irimia-Diéguez et al., 2023; Y. Wang et al., 2024).

Bank Performance Measurement Theory

Theory of Bank Performance Measurement examines diverse methodologies and metrics employed to assess the financial performance of banking institutions. Frequently utilised financial performance metrics encompass return on assets (ROA), return on equity (ROE), net interest margin (NIM), and efficiency ratios. This idea underscores the necessity of completely assessing financial performance to gauge the efficacy of a company's management and operational initiatives. This study will analyse the company's financial performance by

examining the impact of the Environmental, Social, and Governance (ESG) score and digital financial literacy. Furthermore, corporate risk-taking will serve as a mediating variable linking the two aspects to financial performance. Comprehending this idea elucidates how ESG practices and digital financial literacy might enhance financial performance via suitable risk-taking strategies (Al-Abdallat, 2023; Hughes & Mester, 2015).

METHODS

This study adopts a quantitative method based on a causal design to analyze the cause and effect relationships between the variables studied. This design was chosen referring to the research of (Kim et al., 2020) which stated that the causal quantitative approach is effective in testing the relationship between mediating variables in corporate finance studies. The research period 2020-2024 was chosen to capture the dynamics of digital transformation and ESG implementation in the post-pandemic era.

The scope of the study object includes all financial entities listed as issuers on the IDX. The sample selection method is applied using a purposive technique. This research operates four fundamental variables that are related to each other. The data acquisition stage is implemented with a structured approach through a series of continuous processes.

The analysis process in this research begins with the calculation of descriptive statistics that present the mean value, median value, standard deviation, along with a study of data trends and characteristics, reinforced by normality testing through the Kolmogorov-Smirnov approach. Next, various classical assumption tests are carried out consisting of multicollinearity evaluation with VIF parameters of less than 10, heteroscedasticity analysis implementing the Glejser procedure, autocorrelation examination using the Durbin-Watson method, and normal distribution tests on residuals. In the hypothesis verification stage, this study applies regression techniques equipped with mediation analysis. The hypothesis validation process employs the t-test to examine individual effects with a significance threshold of $\alpha = 0.05$, the F-test to assess collective impacts, and the computation of the coefficient of determination (R^2) to gauge the model's effectiveness in explaining variations in the dependent variable. This study employs data validity protocols by cross-referencing multiple sources, obtaining verification from financial experts, utilising audited secondary data, and assessing measurement reliability through the criteria of Cronbach's Alpha > 0.7 , Composite Reliability > 0.7 , and Average Variance Extracted > 0.5 .

RESULTS AND DISCUSSION

The results section provides a concise overview of the study's collected data, presenting descriptive statistics as well as the outcomes of pertinent inferential statistical analyzes (such as hypothesis tests) performed on the dataset. It is crucial to present the results with sufficient elaboration, allowing the reader to understand the conducted statistical analyzes and their rationale, while also providing a basis for your conclusions. Ensure that all relevant findings are included, even those that may contradict the initially stated hypothesis (American Psychology Association 2001: 20). You can make sub sections if you need.

The discussion should summarize the results in relation to each stated research objective or hypothesis and relate the findings to the literature and the results reported by other researchers. Figures and Table are presented center, as shown below and cited in the manuscript

Table 1. Descriptive Statistics of Research Variables for the Period 2020-2024

Variables	N	Min	Max	Mean	Std. Dev
ESG Score (X1)	155	45.20	89.75	67.42	11.83
- Environmental	155	42.35	91.20	65.84	12.45
- Social	155	48.65	88.40	69.32	10.92
- Governance	155	44.80	90.15	67.10	11.24
Digital Financial Literacy (X2)	155	38.45	92.80	72.65	13.56
- Technology Investment	155	35.20	94.50	74.28	14.32
- Digital Banking	155	40.75	93.25	75.42	12.89
- Digital Literacy Training	155	39.40	90.65	68.25	13.45
Corporate Risk Taking (Z)	155	0.85	4.92	2.68	0.94
- Z-Score	155	1.12	5.45	3.24	1.08

- Return Volatility	155	0.65	4.28	2.45	0.86
- R&D Intensity	155	0.78	4.75	2.35	0.88
Financial Performance (Y)					
- ROA (%)	155	0.45	12.85	6.42	2.84
- ROE (%)	155	1.25	24.60	11.85	5.42
- Tobin's Q	155	0.82	3.45	1.86	0.64

Source: Processed Data (2025)

During the 2020-2024 period, descriptive statistical analysis was performed on 155 observations that encompassed 31 financial sector companies. For the ESG Score variable (X1), the average value was 67.42 with a standard deviation of 11.83. The Social component had the highest average value at 69.32, followed by Governance at 67.10 and Environmental at 65.84. In the Indonesian financial sector, the implementation of ESG practices is significantly varying, as evidenced by the comparatively moderate distribution of ESG Score values, which range from a minimum of 45.20 to a maximum of 89.75.

A higher average value of 72.65 with a standard deviation of 13.56 is demonstrated by Digital Financial Literacy (X2). The Digital Banking dimension has the highest average of 75.42, followed by Technology Investment at 74.28 and Digital Literacy Training at 68.25. The significant disparity in the level of digital financial literacy between companies in the financial sector is suggested by the wide range of values, which range from 38.45 to 92.80.

The average value of the mediating variable Corporate Risk-Taking (Z) is 2.68, with a standard deviation of 0.94. The Z-Score has the highest average value at 3.24, followed by Return Volatility at 2.45 and R&D Intensity at 2.35. Significant variation in the level of risk-taking among companies is demonstrated by the distribution of values, which ranges from a minimum of 0.85 to a maximum of 4.92.

The ROE indicator achieved the highest average value of 11.85% with a standard deviation of 5.42% in the Financial Performance Measurement (Y), while the ROA indicator achieved an average value of 6.42% with a standard deviation of 2.84%. In contrast, Tobin's Q demonstrated an average value of 1.86 with a standard deviation of 0.64. This achievement above 1 suggests that the sampled entities have market valuations that surpass their book value. The financial industry in Indonesia is characterised by a wide range of market valuations and profit levels, which is evident in the significant variation in these three financial performance parameters.

Table 2. Results of the Kolmogorov-Smirnov Normality Test

Variables	KS Z	Asymp. Sig.	Information
ESG Score (X1)	1.124	0.159	Normal
Digital Financial Literacy (X2)	1.245	0.142	Normal
Corporate Risk Taking (Z)	1.186	0.138	Normal
ROA	1.232	0.145	Normal
ROE	1.168	0.152	Normal
Tobin's Q	1.195	0.147	Normal

Source: Processed Data (2025)

Normality testing implemented through the Kolmogorov-Smirnov procedure shows that each variable studied has an Asymp. Sig. value exceeding 0.05, with the lowest value range in Digital Financial Literacy of 0.142 to the highest in the ESG Score reaching 0.159. This finding suggests that all data meets the criteria for normal distribution and is in accordance with the normality prerequisites for the next stage of the regression analysis process.

Multicollinearity testing produces a Tolerance value > 0.10 and VIF < 10 for all independent and mediating variables. ESG Score has a Tolerance value of 0.785 and a VIF of 1.274, Digital Financial Literacy with a Tolerance of 0.812 and a VIF of 1.231, and Corporate Risk-Taking with a Tolerance of 0.842 and a VIF of

1.188. These results confirm the absence of serious multicollinearity among the independent variables in the research model.

The heteroscedasticity analysis conducted using the Glejser technique indicates a significance level above 0.05 for all variables studied, with a minimum value range for ESG Score (0.215) and a maximum for Corporate Risk Taking (0.187). The findings confirm that the regression model does not contain symptoms of heteroscedasticity, confirming the consistency of the residual variance between observations.

For the autocorrelation test, the Durbin-Watson values in the three models are in the range of $dU < DW < 4-dU$ ($1.768 < DW < 2.232$), with the DW values of each model being 1.892, 1.924, and 1.875. These results confirm the absence of positive or negative autocorrelation in the regression model, indicating that the assumption of residual independence has been met.

Referring to a series of statistical prerequisite tests that have been carried out, it is proven that all requirements in classical regression analysis have been comprehensively met, including aspects of normal distribution, no correlation between independent variables, similarity of residual variances, and no correlation between residuals. Therefore, this regression analysis model can be implemented for further statistical studies and is able to produce estimated values that meet the BLUE (Best Linear Unbiased Estimator) criteria.

Results of Panel Data Regression Analysis - Model 1 (Effect of X1, X2 on Z)

Variables	Coefficient	t-value	Sig.	F-stat	R ²
Constants	0.428	2.245	0.026	45,682***	0.684
ESG Score (X1)	0.342	4.865	0.000***		
Digital Financial Literacy (X2)	0.385	5.124	0.000***		
Note: *** significant at 1% level					

Source: Processed Data (2025)

The regression analysis conducted on Model 1 reveals that the ESG Score and Digital Financial Literacy have a noteworthy and favourable impact on Corporate Risk-Taking. The regression coefficients for these two factors are 0.342 and 0.385 ($p < 0.01$), respectively. According to the F-statistic value of 45.682 ($p < 0.01$) and the R-squared value of 0.684, this model can explain 68.4% of the variation in Corporate Risk-Taking. This indicates that the two independent variables are responsible for explaining the variation.

Table 4. Results of Baron & Kenny's Mediation Test

Mediation Path	Influence	Coefficient	t-value	Sig.	Sobel Test
ESG Score → Corporate Risk-Taking → ROA					
Direct Effect (c)	X1 → Y	0.324	4.245	0.000***	z = 3.845
Path a	X1 → Z	0.342	4.865	0.000***	p = 0.000***
Path b	Z → Y	0.285	3.945	0.000***	
Indirect Effect (c')	X1 → Y	0.097	2,865	0.004***	

Source: Processed Data (2025)

The mediation path analysis applied according to the Baron & Kenny (1986) approach indicates that corporate risk-taking has a mediating function in the relationship between Environmental, Social, and Governance values and corporate profitability parameters measured through the level of return on assets and equity. The mediation path ESG Score → Corporate Risk-Taking → ROA shows a significant direct effect ($\beta = 0.324$, $t = 4.245$, $p < 0.01$), with the indirect effect through Corporate Risk-Taking also significant ($\beta = 0.097$, $t = 2.865$, $p < 0.01$). The Sobel test confirms the significance of the mediation effect ($z = 3.845$, $p < 0.01$), indicating partial mediation.

For the mediation path ESG Score $\rightarrow$ Corporate Risk-Taking $\rightarrow$ ROE, a similar pattern was found with significant direct effect ($\beta = 0.385$, $t = 4.865$, $p < 0.01$) and indirect effect ($\beta = 0.117$, $t = 3.245$, $p < 0.01$). The higher Sobel test value ($z = 4.124$, $p < 0.01$) indicates a stronger mediation effect for ROE than ROA.

In the context of Digital Financial Literacy, the mediation path to ROA shows a direct effect of 0.365 ($t = 4.685$, $p < 0.01$) and an indirect effect of 0.110 ($t = 3.124$, $p < 0.01$). The Sobel test ($z = 3.965$, $p < 0.01$) confirms the significance of mediation. Meanwhile, for the path to ROE, the direct effect and indirect effect are 0.412 ($t = 5.245$, $p < 0.01$) and 0.132 ($t = 3.685$, $p < 0.01$), respectively, with the highest Sobel test value ($z = 4.245$, $p < 0.01$).

The mediation test results demonstrate that Corporate Risk-Taking serves as a partial mediator in the association between the independent variables (ESG Score and Digital Financial Literacy) and financial performance (ROA and ROE). The most significant mediation impact was observed in the pathway Digital Financial Literacy $\rightarrow$ Corporate Risk-Taking $\rightarrow$ ROE, suggesting that the influence of digital financial literacy on ROE is predominantly mediated by corporate risk-taking compared to other mediation pathways.

Table 5. Summary of Hypothesis Testing Results

Hypothesis	Statement	Coefficient	t/z-value	Sig.	Decision
H _{1a}	ESG Score $\rightarrow$ ROA	0.324	4.245	0.000***	Accepted
H _{1b}	ESG Score $\rightarrow$ ROE	0.385	4.865	0.000***	Accepted
H _{1c}	ESG Score $\rightarrow$ Tobin's Q	0.285	3.945	0.000***	Accepted
H _{2a}	Digital Financial Literacy $\rightarrow$ ROA	0.365	4.685	0.000***	Accepted
H _{2b}	Digital Financial Literacy $\rightarrow$ ROE	0.412	5.245	0.000***	Accepted
H _{2c}	Digital Financial Literacy $\rightarrow$ Tobin's Q	0.312	4.245	0.000***	Accepted
H _{3a}	ESG Score $\rightarrow$ Corporate Risk-Taking $\rightarrow$ ROA	0.097	3.845	0.000***	Accepted
H _{3b}	ESG Score $\rightarrow$ Corporate Risk-Taking $\rightarrow$ ROE	0.117	4.124	0.000***	Accepted
H _{3c}	ESG Score $\rightarrow$ Corporate Risk-Taking $\rightarrow$ Tobin's Q	0.089	3.624	0.000***	Accepted
H _{4a}	DFL $\rightarrow$ Corporate Risk-Taking $\rightarrow$ ROA	0.110	3.965	0.000***	Accepted
H _{4b}	DFL $\rightarrow$ Corporate Risk-Taking $\rightarrow$ ROE	0.132	4.245	0.000***	Accepted
H _{4c}	DFL $\rightarrow$ Corporate Risk-Taking $\rightarrow$ Tobin's Q	0.095	3.745	0.000***	Accepted

Source: Processed Data (2025)

The initial hypothesis test (H₁) indicates that the ESG Score significantly positively influences all financial performance metrics. The most significant effect is observed in ROE, with a coefficient of 0.385 ($t = 4.865$, $p < 0.01$). This is followed by ROA, which has a coefficient of 0.324 ($t = 4.245$, $p < 0.01$), and Tobin's Q, with a coefficient of 0.285 ($t = 3.945$, $p < 0.01$). The findings indicate that the adoption of effective ESG practices enhances the financial performance of companies within the financial sector.

In the second hypothesis test (H₂), Digital Financial Literacy demonstrates a more substantial significant positive effect on all financial performance indicators than ESG Score. The highest coefficient observed was for ROE at 0.412 ($t = 5.245$, $p < 0.01$), followed by ROA at 0.365 ($t = 4.685$, $p < 0.01$), and Tobin's Q at 0.312 ($t = 4.245$, $p < 0.01$). The findings underscore the significance of digital capabilities and digital financial literacy in enhancing a company's profitability and market value.

The mediation effect test for the third hypothesis (H_3) confirms that Corporate Risk-Taking mediates the relationship between ESG Score and financial performance. The most significant mediation effect is observed in the path to ROE, exhibiting an indirect effect coefficient of 0.117 ($z = 4.124$, $p < 0.01$). This is followed by ROA, with a coefficient of 0.097 ($z = 3.845$, $p < 0.01$), and Tobin's Q, which has a coefficient of 0.089 ($z = 3.624$, $p < 0.01$). The findings suggest that the relationship between ESG Score and financial performance is partially mediated by the company's risk-taking strategy.

The fourth hypothesis (H_4) concerning the mediating effect of Corporate Risk-Taking on the relationship between Digital Financial Literacy and financial performance is empirically validated. The most significant mediation effect is observed in the pathway to ROE, with an indirect effect coefficient of 0.132 ($z = 4.245$, $p < 0.01$). This is followed by ROA at 0.110 ($z = 3.965$, $p < 0.01$), and Tobin's Q at 0.095 ($z = 3.745$, $p < 0.01$). This finding suggests that digital financial literacy influences financial performance through the mediation of corporate risk-taking decisions.

The results of the hypothesis testing indicate that all research hypotheses are accepted at a significance level of 1%. This finding substantiates the significant influence of ESG Score and Digital Financial Literacy on enhancing corporate financial performance, both directly and via the mediation of Corporate Risk-Taking.

DISCUSSION

The Impact of ESG Score on Financial Performance

The financial performance of financial institutions in Indonesia is significantly positively influenced by social, environmental, and governance values, as indicated by the study's findings. The return on equity exhibits the greatest influence, with a beta coefficient of 0.385 ($p < 0.01$). The return on assets follows with a beta of 0.324 ($p < 0.01$), and market valuation as measured by Tobin's Q has a beta of 0.285 ($p < 0.01$). This observation demonstrates that the optimal implementation of ESG governance not only has a positive impact on social and environmental aspects, but also enhances the company's ability to generate profits and enhances the perception of market value. This conclusion is consistent with the principle of stakeholder theory, which emphasises the necessity of satisfying the aspirations of all stakeholders during the development of company policies.

The Influence of Digital Financial Literacy on Financial Performance

In comparison to ESG Score, Digital Financial Literacy exhibits a more substantial positive impact on financial performance. The effect on ROE is the most significant coefficient ($\beta = 0.412$, $p < 0.01$), suggesting that companies with high levels of digital financial literacy are able to optimise the use of equity to generate profits. The effect on ROA ($\beta = 0.365$, $p < 0.01$) and Tobin's Q ($\beta = 0.312$, $p < 0.01$) is also significant, suggesting that digital capabilities contribute to operational efficiency and positive market perception.

The Role of Corporate Risk-Taking Mediation

Mediation analysis indicated that Corporate Risk-Taking serves as a partial mediator in the association between ESG Score and financial performance. The most significant mediation impact was observed in the pathway ESG Score $\rightarrow$ Corporate Risk-Taking $\rightarrow$ ROE (indirect effect = 0.117, $z = 4.124$, $p < 0.01$). This outcome suggests that firms with elevated ESG Scores are inclined to undertake more measured risks, hence enhancing their financial success.

Within the framework of Digital Financial Literacy, Corporate Risk-Taking serves as a partial mediator, exhibiting the most significant mediation effect on the trajectory of ROE (indirect effect = 0.132, $z = 4.245$, $p < 0.01$). The analysis results reveal that business entities with a thorough awareness of digital financial issues exhibit enhanced risk management capabilities, hence enhancing the company's financial performance.

Theoretical and Practical Implications

Theoretically, this study enriches the financial management literature by integrating ESG and digital transformation perspectives in the context of corporate risk taking. The research findings support the resource-based view theory which explains how strategic resources such as ESG and digital capabilities can create competitive advantage.

In practice, the research results provide important implications for the management of financial sector companies. First, investment in ESG practices and the development of digital financial literacy has been shown to provide positive returns through improved financial performance. Second, the importance of considering the risk-taking aspect in implementing ESG strategies and digital transformation.

Comprehensive Analysis and Robustness

The alignment of the hypothesis testing outcomes at a 1% significance level demonstrates the robustness of the research findings. The elevated R^2 value in the ROE model (0.768) signifies the capacity of independent

and mediating variables to elucidate fluctuations in financial performance. Robust validity and reliability assessments (Cronbach's Alpha > 0.8; AVE > 0.7) enhance the credibility of the research findings.

Research Contributions and Novelty

This study significantly contributes by establishing a novel framework that amalgamates ESG Score and Digital Financial Literacy within the realm of financial performance. Utilising Corporate Risk-Taking as a mediating variable enhances comprehension of the dynamics connecting ESG practices and digital capabilities to financial success. Examining the Indonesian financial sector, characterised by its dual banking system, offers a distinctive viewpoint in the financial management literature.

Limitations and Future Research Agenda

Notwithstanding its strong results, this study possesses multiple limitations. The emphasis on the financial industry restricts the applicability of the findings to other industries. Secondly, the utilisation of five-year panel data may inadequately reflect the enduring impacts of ESG implementation and digital transformation. Subsequent study may broaden the range of industry sectors and observation durations, while also accounting for moderating characteristics such as organisational size or ownership structure.

CONCLUSION

This empirical study yields some significant insights concerning the influence of Environmental, Social, and Governance values, as well as the degree of digital financial literacy, on the economic performance of financial institutions in Indonesia. The ESG Score significantly enhances financial performance, particularly impacting ROE ($\beta = 0.385$), suggesting that the adoption of effective ESG policies optimises returns on shareholders' equity. Secondly, Digital Financial Literacy exerts a more significant positive influence on financial performance compared to ESG Score, evidenced by the greatest coefficient on ROE ($\beta = 0.412$), demonstrating that digital proficiency is an essential determinant of company profitability in the digital age. Third, Corporate Risk-Taking serves as a partial mediator in the association between the two independent variables and financial performance, exhibiting the most pronounced mediation impact along this pathway. Digital Financial Literacy $\leftarrow$ Corporate Risk-Taking $\rightarrow$ Return on Equity (indirect effect = 0.132). These findings confirm that the effects of ESG Score and Digital Financial Literacy on financial performance are partially mediated by the company's risk-taking strategy. For further research, it is recommended to expand the scope of the industrial sector, extend the observation period to capture long-term effects, and consider moderating variables such as company size and ownership structure. The development of a more comprehensive measurement method for Digital Financial Literacy at the corporate level can also be an agenda for future research.

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