

ESG Practices and Firm Risk: A Conceptual Framework for Sustainable Risk Management

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ABSTRACT

Environmental, Social, and Governance (ESG) practices have become increasingly important in corporate decision-making as organisations strive to balance financial performance with long-term sustainability. Beyond fulfilling stakeholder expectations and regulatory requirements, ESG practices are increasingly recognised as strategic mechanisms for managing corporate risks. However, existing studies report inconsistent evidence regarding the relationship between ESG practices and firm risk, with some studies documenting significant risk reduction while others report mixed or insignificant effects. These inconsistencies suggest that the mechanisms through which ESG practices influence different dimensions of firm risk remain insufficiently understood. Therefore, this conceptual paper develops an integrated conceptual framework explaining the organisational mechanisms through which ESG practices contribute to sustainable risk management by synthesising insights from Stakeholder Theory, Risk Management Theory, Institutional Theory, and Managerial Opportunism Theory. The proposed framework argues that ESG practices reduce firm risk by strengthening stakeholder relationships, improving governance quality, enhancing organisational resilience, reducing information asymmetry, and promoting greater corporate transparency. The framework further recognises that institutional environments influence the effectiveness of ESG implementation, explaining why ESG outcomes may vary across organisational and regulatory settings. This paper contributes to the growing ESG literature by integrating multiple theoretical perspectives into a single conceptual framework explaining the pathways linking ESG practices with systematic risk, total risk, default risk, and credit risk. The proposed framework provides useful implications for managers, investors, regulators, policymakers, and researchers seeking to understand the strategic role of ESG in sustainable risk management.

Keywords: Environmental, Social and Governance (ESG), Firm Risk, Sustainable Risk Management, Stakeholder Theory, Conceptual Framework

INTRODUCTION

Environmental, Social, and Governance (ESG) practices have become increasingly important in contemporary business as organisations seek to achieve long-term sustainability while responding to growing stakeholder expectations. Global economic uncertainty, climate-related challenges, increasing regulatory demands, and heightened public awareness have accelerated the transition from traditional business models that primarily emphasised financial performance towards more sustainable and responsible business practices. Consequently, ESG practices have evolved from voluntary corporate initiatives into strategic organisational capabilities that support sustainable value creation and long-term competitiveness (Fernandes et al., 2021; Ferreira et al., 2020).

The growing importance of ESG has also transformed corporate reporting by expanding the disclosure of non-financial information relating to environmental stewardship, social responsibility, and governance practices. Such disclosures enhance corporate transparency and accountability, enabling investors, creditors, regulators, and other stakeholders to assess organisational performance beyond conventional financial indicators (Adams & Frost, 2008; Deloitte, 2020; Lombardi & Secundo, 2021). Consequently, ESG information has become an increasingly important source for evaluating organisational sustainability and long-term risk exposure. Firm

risk remains a central concern in corporate finance because it directly influences financing decisions, investment performance, and organisational sustainability. Increasingly, ESG practices are recognised as strategic mechanisms that strengthen governance quality, improve corporate transparency, enhance stakeholder confidence, and increase organisational resilience. Accordingly, previous empirical studies generally report that firms with stronger ESG performance experience lower financing costs, reduced stock price volatility, and greater resilience during periods of economic uncertainty (Abdul Razak et al., 2020; Albuquerque et al., 2019; Jo & Na, 2012; Sassen & Hinze, 2016; Shakil, 2021).

Despite these findings, the relationship between ESG practices and firm risk remains inconclusive. While many studies report a significant negative relationship between ESG performance and firm risk, others document positive or statistically insignificant associations (Bhuiyan et al., 2020; Breuer et al., 2018; El Ghouli et al., 2011; Nguyen & Nguyen, 2020; Seltzer et al., 2020; Stellner et al., 2015). These inconsistent findings suggest that ESG practices influence firm risk through multiple organisational mechanisms rather than a single direct relationship. Furthermore, existing studies frequently focus on individual measures of firm risk, making it difficult to explain how ESG practices influence different dimensions of organisational risk simultaneously. Competing perspectives further contribute to these inconsistencies. The overinvestment perspective argues that ESG initiatives consume organisational resources and may reduce shareholder value (Friedman, 1962; Goss & Roberts, 2011; Mackey et al., 2007; Marsat & Williams, 2014), whereas the value creation perspective proposes that ESG practices strengthen corporate reputation, enhance stakeholder trust, improve transparency, and ultimately contribute to lower firm risk (Goss & Roberts, 2011; Hahn & Kühnen, 2013; Herzig & Schaltegger, 2006; Stellner et al., 2015). Together, these competing perspectives highlight the need for a broader conceptual explanation of the ESG and firm risk relationship.

Against this backdrop, this conceptual paper proposes an integrated conceptual framework explaining how ESG practices contribute to sustainable risk management. Drawing upon Stakeholder Theory, Risk Management Theory, Managerial Opportunism Theory, and Institutional Theory, the framework argues that ESG practices influence firm risk through strengthened stakeholder relationships, improved governance and transparency, enhanced organisational resilience, and responsible managerial decision-making. By integrating these complementary theoretical perspectives, the study makes three principal contributions. First, it conceptualises ESG practices as strategic organisational capabilities for sustainable risk management rather than merely sustainability initiatives. Second, it adopts a multidimensional perspective of firm risk encompassing systematic risk, total risk, default risk, and credit risk. Third, it develops an integrated conceptual framework and research propositions that provide a foundation for future empirical research while offering practical insights for managers, investors, regulators, and policymakers.

Esg Practices as a Strategic Risk Management Tool

ESG practices have emerged as an important framework for evaluating corporate sustainability and responsible business conduct. ESG extends beyond traditional measures of financial performance by incorporating non-financial factors that reflect how organisations manage environmental challenges, social responsibilities, and governance practices. As sustainability becomes increasingly embedded in corporate strategy, ESG has evolved from a voluntary corporate social responsibility initiative into a strategic management approach that supports long-term organisational performance and value creation (Eccles et al., 2014; Fernandes et al., 2021; Ferreira et al., 2020). Consequently, ESG practices are increasingly recognised as an integral component of sustainable business management rather than merely a reporting requirement. The growing importance of ESG has been driven by increasing expectations from investors, regulators, customers, employees, and other stakeholders for greater corporate transparency and accountability. As a result, organisations are increasingly expected to demonstrate responsible business practices through consistent ESG disclosures. These disclosures provide stakeholders with additional information regarding a firm's environmental performance, social responsibility, and governance quality, enabling a more comprehensive assessment of organisational sustainability beyond conventional financial indicators (Adams & Frost, 2008; Deloitte, 2020; Lombardi & Secundo, 2021). Consequently, ESG information has become an important consideration in corporate evaluation, investment analysis, and strategic decision-making.

To facilitate consistent assessment of sustainability performance, several international ESG rating agencies have developed standardised measurement frameworks. Among these, the Refinitiv ESG database is one of

the most widely adopted in academic research because it provides comprehensive and comparable ESG information across a broad range of publicly listed firms. Refinitiv evaluates corporate sustainability performance using an aggregate ESG score together with three underlying dimensions (environmental, social, and governance), allowing researchers to examine both overall ESG performance and the individual contribution of each dimension (Refinitiv Eikon Datastream, 2021).

The environmental dimension assesses how effectively organisations manage environmental risks and opportunities through responsible resource utilisation, emissions management, and environmental innovation. Firms demonstrating stronger environmental performance are generally characterised by greater commitment to environmental stewardship and sustainable operational practices. The social dimension evaluates organisational relationships with key stakeholder groups, including employees, customers, suppliers, and local communities. This dimension encompasses workforce management, human rights, community engagement, and product responsibility, reflecting a firm's commitment to creating sustainable stakeholder value and maintaining corporate legitimacy. The governance dimension focuses on the systems, structures, and processes that support effective corporate oversight, accountability, transparency, and shareholder protection. Strong governance practices enhance board effectiveness, managerial accountability, and decision-making quality, thereby strengthening organisational integrity and stakeholder confidence.

Collectively, the three ESG dimensions provide a holistic representation of corporate sustainability by integrating environmental responsibility, social performance, and governance quality into a single organisational framework. Rather than operating independently, these dimensions complement one another in reflecting how organisations manage sustainability-related issues and respond to stakeholder expectations. Accordingly, ESG practices provide an appropriate foundation for examining the organisational mechanisms through which sustainability initiatives may influence firm risk, which is discussed in the following section.

Firm Risk

Firm risk represents the uncertainty surrounding an organisation's ability to achieve its financial and strategic objectives. It reflects the extent to which internal and external factors may adversely affect corporate performance, financial stability, and long-term value creation. Consequently, firm risk is a central concern for managers, investors, creditors, and regulators because it influences investment decisions, financing costs, and organisational sustainability. As firms operate in increasingly complex and uncertain business environments, understanding the different dimensions of firm risk has become essential for evaluating corporate resilience and long-term performance.

The existing literature measures firm risk using a variety of market-based and accounting-based indicators, reflecting the multidimensional nature of organisational risk. However, previous ESG studies have predominantly focused on market-based measures such as systematic risk, total risk, and idiosyncratic risk (Lueg et al., 2019; Sassen & Hinze, 2016; Shakil, 2021). While these measures provide useful insights into investors' perceptions of corporate risk, they capture only one aspect of organisational uncertainty. A broader conceptualisation is therefore required to understand how ESG practices may influence different categories of firm risk.

In this paper, firm risk is conceptualised using four complementary dimensions: systematic risk, total risk, default risk, and credit risk. Collectively, these dimensions provide a more comprehensive representation of organisational risk by incorporating both market perceptions and financial stability. Systematic risk refers to market-wide risk arising from macroeconomic and financial factors that cannot be eliminated through portfolio diversification. It is commonly measured using market beta, which reflects the sensitivity of a firm's stock returns relative to overall market movements (Lueg et al., 2019; Oikonomou et al., 2012; Sassen & Hinze, 2016). Firms with higher beta values are generally considered more sensitive to market fluctuations, whereas firms with lower beta values demonstrate greater market stability.

Total risk represents the overall variability of a firm's stock returns by combining both systematic and firm-specific risks. It is typically measured using the annualised standard deviation of stock returns and reflects the overall uncertainty surrounding organisational performance (Bouslah et al., 2013; Jo & Na, 2012; Sassen &

Hinze, 2016; Shakil, 2021). Compared with systematic risk, total risk provides a broader assessment of the volatility experienced by the firm.

In addition to market-based measures, accounting-based indicators provide important insights into a firm's financial condition. Default risk reflects the likelihood that an organisation will experience financial distress and fail to meet its financial obligations. It is commonly represented using the Altman Z-score, which remains one of the most widely recognised indicators of bankruptcy risk (Altman, 1968). Credit risk, meanwhile, refers to the risk perceived by lenders and creditors and is frequently measured using the accounting cost of debt, calculated as financial expenses relative to total financial debt (Erragragui, 2018; La Rosa et al., 2018).

Conceptualising firm risk as a multidimensional construct provides a more comprehensive understanding of organisational vulnerability than relying on a single risk indicator. Different categories of firm risk capture different aspects of corporate performance, market behaviour, and financial stability. Accordingly, this multidimensional perspective provides an appropriate foundation for examining how ESG practices may influence firm risk through different organisational mechanisms. The following section develops the theoretical arguments underlying these relationships.

Understanding The ESG and Firm Risk Relationship

Despite the growing body of ESG literature, the relationship between ESG practices and firm risk remains inconclusive. Numerous empirical studies report that firms with stronger ESG performance experience lower financing costs, reduced stock price volatility, and greater organisational resilience (Abdul Razak et al., 2020; Albuquerque et al., 2019; Jo & Na, 2012; Sassen & Hinze, 2016; Shakil, 2021). However, other studies document mixed or statistically insignificant relationships (Bhuiyan et al., 2020; Breuer et al., 2018; El Ghouli et al., 2011; Nguyen & Nguyen, 2020; Seltzer et al., 2020; Stellner et al., 2015). These inconsistent findings suggest that ESG practices influence firm risk through multiple organisational mechanisms rather than a single direct pathway. Accordingly, understanding the ESG and firm risk relationship requires a broader theoretical perspective that integrates complementary explanations of how sustainability practices create organisational value while mitigating different dimensions of firm risk.

One important mechanism through which ESG practices influence firm risk is the development of stronger stakeholder relationships. Stakeholder Theory argues that organisations create sustainable value by balancing the interests of multiple stakeholder groups rather than focusing solely on shareholder wealth (Freeman, 1984). Firms that actively invest in environmental stewardship, social responsibility, and sound governance strengthen their relationships with employees, customers, suppliers, regulators, investors, and local communities. These stronger stakeholder relationships enhance organisational legitimacy, improve corporate reputation, and reduce information asymmetry, thereby contributing to greater organisational stability (Hahn & Kühnen, 2013; Parmar et al., 2010). Consequently, stakeholder trust provides an important foundation through which ESG practices may contribute to lower levels of firm risk.

A second mechanism concerns improvements in governance quality and corporate transparency. Effective ESG implementation encourages organisations to strengthen governance structures, improve accountability, and enhance the quality of corporate disclosures. Better governance reduces agency conflicts, improves managerial monitoring, and enables stakeholders to make more informed assessments of organisational performance. Greater transparency also reduces information asymmetry between firms and investors, increasing confidence in corporate decision-making and supporting more sustainable organisational outcomes (Barnea & Rubin, 2010; Chen & Roberts, 2010; Goss & Roberts, 2011). From this perspective, governance is not merely one dimension of ESG but also an important mechanism through which sustainability practices contribute to lower organisational risk.

ESG practices also contribute to firm risk reduction by strengthening organisational resilience. Risk Management Theory proposes that responsible corporate behaviour generates "moral capital," which functions as a form of reputational insurance during periods of uncertainty (Godfrey, 2005). Organisations that consistently invest in ESG practices accumulate stakeholder goodwill that helps mitigate the impact of operational disruptions, financial crises, and reputational shocks. This accumulated resilience enables firms to respond more effectively to adverse events while maintaining organisational stability and long-term

competitiveness (Chang et al., 2014; Godfrey, 2005; Luo & Bhattacharya, 2009). Consequently, ESG should be viewed not only as a sustainability initiative but also as a strategic approach to enterprise risk management.

Nevertheless, ESG practices do not always produce favourable outcomes. The effectiveness of ESG implementation depends substantially on managerial intentions and the institutional environment in which organisations operate. Managerial Opportunism Theory suggests that managers may use ESG initiatives strategically to enhance their personal reputation or divert attention from weak financial performance, resulting in inefficient resource allocation and weaker sustainability outcomes (Bansal et al., 2013; Barnea & Rubin, 2010; Bouslah et al., 2013; Cespa & Cestone, 2007). At the same time, Institutional Theory argues that organisations operate within regulatory, cultural, and governance environments that influence the adoption and effectiveness of ESG practices (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). Firms operating within stronger institutional environments generally face greater pressure to adopt meaningful ESG practices, resulting in more credible sustainability initiatives and stronger risk management benefits (Baldini et al., 2018; Fernando & Lawrence, 2014).

Taken together, these perspectives suggest that ESG practices reduce firm risk not through a single mechanism but through a combination of strengthened stakeholder relationships, improved governance and transparency, enhanced organisational resilience, and responsible managerial decision-making operating within supportive institutional environments. This integrated perspective provides a more comprehensive explanation of the ESG and firm risk relationship than any individual theory alone and forms the theoretical foundation for the proposed conceptual framework presented in the following section.

PROPOSED CONCEPTUAL FRAMEWORK

Building upon the preceding theoretical discussion, this paper proposes an integrated conceptual framework explaining how ESG practices contribute to sustainable risk management. In this paper, sustainable risk management refers to the strategic integration of ESG practices into organisational decision-making to enhance long-term resilience while reducing multiple dimensions of firm risk. Rather than assuming a direct relationship between ESG practices and firm risk, the framework argues that the influence of ESG occurs through a series of interconnected organisational mechanisms. This perspective recognises that sustainability initiatives do not automatically reduce firm risk. Instead, ESG practices create organisational capabilities that strengthen a firm's ability to anticipate, manage, and respond to uncertainties, ultimately improving its long-term resilience and sustainability. The proposed framework integrates insights from Stakeholder Theory, Risk Management Theory, Managerial Opportunism Theory, and Institutional Theory to explain how ESG practices influence organisational outcomes. Although each theory offers a different perspective, they collectively suggest that ESG practices generate value by strengthening stakeholder relationships, improving governance and transparency, enhancing organisational resilience, and encouraging responsible managerial decision-making. These mechanisms are not independent; rather, they interact to shape how effectively organisations translate sustainability initiatives into improved risk management outcomes. Accordingly, the framework identifies four organisational mechanisms through which ESG practices are expected to influence firm risk. First, ESG practices strengthen stakeholder relationships by enhancing organisational legitimacy, trust, and stakeholder engagement. Stronger stakeholder relationships reduce uncertainty, improve access to resources, and strengthen organisational support during periods of economic or operational disruption. Second, ESG practices improve governance and corporate transparency by strengthening accountability, reducing information asymmetry, and improving monitoring mechanisms. Better governance enhances decision quality while increasing investor and creditor confidence. Third, ESG practices contribute to organisational resilience by encouraging proactive risk management and improving organisational preparedness for environmental, operational, financial, and reputational challenges. This resilience enables firms to respond more effectively to adverse events while maintaining long-term competitiveness.

Finally, ESG practices promote responsible managerial decision-making by encouraging managers to balance short-term financial objectives with long-term sustainability considerations. When supported by appropriate institutional environments, responsible managerial decisions strengthen the effectiveness of ESG implementation and improve organisational risk management. Collectively, these four mechanisms support sustainable risk management, which is reflected in lower systematic risk, lower total risk, lower default risk, and lower credit risk. Rather than proposing a simple direct relationship between ESG practices and firm risk,

the framework explains the organisational processes through which sustainability initiatives contribute to different dimensions of corporate risk.

Figure 1 presents the proposed conceptual framework. It illustrates how the integration of four complementary theoretical perspectives explains the relationship between ESG practices and multidimensional firm risk through four interconnected organisational mechanisms. Together, these mechanisms provide the theoretical foundation for understanding ESG as a strategic approach to sustainable risk management.

Figure 1. Proposed Conceptual Framework of ESG Practices and Sustainable Risk Management



Figure 1 illustrates that ESG practices do not directly reduce firm risk. Instead, ESG practices contribute to sustainable risk management through four interconnected organisational mechanisms. These mechanisms collectively explain how sustainability initiatives strengthen organisational capabilities before influencing the different dimensions of firm risk. Table 1 further summarises the expected conceptual relationships between each ESG dimension and the four firm risk dimensions.

Table 1. Conceptual Relationships between ESG Dimensions and Firm Risk

ESG Dimension	Systematic Risk	Total Risk	Default Risk	Credit Risk	Primary Organisational Mechanism
Environmental	Expected Negative Relationship	Expected Negative Relationship	Expected Negative Relationship	Expected Negative Relationship	Environmental stewardship, operational efficiency, organisational resilience
Social	Expected Negative Relationship	Expected Negative Relationship	Context-dependent	Expected Negative Relationship	Stakeholder trust, reputation, employee and community engagement
Governance	Expected Negative Relationship	Expected Negative Relationship	Expected Negative Relationship	Expected Negative Relationship	Transparency, accountability, monitoring, effective decision-making

Note: The expected relationships presented in this table are conceptual propositions derived from the integrated theoretical framework and are intended to guide future empirical research rather than represent empirical findings.

Research Propositions

Based on the proposed conceptual framework, five research propositions are developed to guide future empirical investigations. Rather than representing independent theoretical arguments, these propositions synthesise the integrated relationships presented in Figure 1 and Table 1. They provide a foundation for future empirical studies seeking to validate the organisational mechanisms through which ESG practices contribute to sustainable risk management.

Proposition 1 (Stakeholder Relationships)

Proposition 1: ESG practices strengthen stakeholder relationships, thereby reducing organisational uncertainty and contributing to sustainable risk management.

This proposition reflects the expectation that organisations with stronger ESG practices develop higher levels of stakeholder trust, legitimacy, and long-term stakeholder support, which collectively enhance organisational stability and reduce exposure to firm risk.

Proposition 2 (Governance and Transparency)

Proposition 2: ESG practices improve governance quality and corporate transparency, thereby strengthening organisational risk management.

Effective governance enhances accountability, reduces information asymmetry, and improves managerial oversight, creating a more transparent decision-making environment that supports sustainable organisational performance.

Proposition 3 (Organisational Resilience)

Proposition 3: ESG practices contribute to lower systematic risk, total risk, default risk, and credit risk through enhanced organisational resilience.

Rather than influencing firm risk through a single pathway, ESG practices are expected to improve organisational preparedness and adaptive capacity, enabling firms to manage different categories of risk more effectively.

Proposition 4 (Responsible Managerial Decision-Making)

Proposition 4: The effectiveness of ESG practices in reducing firm risk depends on responsible managerial decision-making supported by sound corporate governance.

This proposition recognises that ESG initiatives create value only when they are implemented as part of long-term strategic decision-making rather than as symbolic or opportunistic activities.

Proposition 5 (Institutional Environment)

Proposition 5: Institutional environments strengthen the effectiveness of ESG practices as a strategic risk management mechanism.

Supportive regulatory systems, governance quality, and stakeholder expectations enhance the credibility and effectiveness of ESG implementation, enabling organisations to realise greater sustainable risk management benefits.

Collectively, these propositions translate the proposed conceptual framework into empirically testable research directions. Future empirical studies may examine these propositions across different industries, countries, and institutional settings to determine whether the proposed organisational mechanisms consistently explain the relationship between ESG practices and multidimensional firm risk.

6. Implications of the Proposed Conceptual Framework

The proposed conceptual framework offers several implications for ESG research and practice by providing a more integrated understanding of how sustainability initiatives contribute to organisational risk management. Rather than conceptualising ESG practices as isolated environmental, social, or governance activities, the framework positions ESG as a strategic organisational capability that influences firm risk through multiple interconnected mechanisms. This perspective broadens the discussion beyond the direct ESG and firm risk relationship by explaining the organisational processes through which sustainability practices contribute to long-term resilience and sustainable value creation.

From a theoretical perspective, the framework contributes to the ESG literature in three important ways. First, it integrates Stakeholder Theory, Risk Management Theory, Managerial Opportunism Theory, and Institutional Theory into a single conceptual explanation of the ESG and firm risk relationship. Rather than relying on one dominant theoretical perspective, the framework demonstrates that the interaction of complementary theories provides a more comprehensive understanding of how ESG practices influence organisational outcomes. Second, the framework conceptualises firm risk as a multidimensional construct comprising systematic risk, total risk, default risk, and credit risk, thereby extending existing conceptual discussions that frequently rely on a single measure of organisational risk. Finally, the proposed framework shifts attention from examining whether ESG affects firm risk to understanding how ESG practices contribute to sustainable risk management through identifiable organisational mechanisms.

The framework also provides practical implications for corporate managers, investors, creditors, and policymakers. For managers, the framework highlights that ESG practices should be integrated into organisational strategy rather than treated solely as sustainability reporting or compliance activities. By strengthening stakeholder relationships, governance quality, organisational resilience, and managerial decision-making, ESG practices can support more effective enterprise risk management and long-term organisational sustainability. For investors and creditors, the framework emphasises that ESG information complements traditional financial indicators by providing additional insights into organisational quality, governance, and resilience, thereby supporting more informed investment and lending decisions. For

policymakers and regulators, the framework reinforces the importance of promoting consistent and transparent ESG reporting standards that enhance corporate accountability while strengthening confidence in capital markets.

Third, the proposed framework provides a foundation for future empirical research. The research propositions developed in this paper offer testable directions for examining how ESG practices influence different dimensions of firm risk across industries, countries, and institutional environments. By identifying stakeholder relationships, governance and transparency, organisational resilience, and responsible managerial decision-making as the primary organisational mechanisms, the framework also provides a basis for investigating the conditions under which ESG practices are most effective in contributing to sustainable risk management. These implications collectively reinforce the view that ESG practices should be understood not merely as sustainability initiatives, but as strategic organisational capabilities that contribute to sustainable risk management.

CONCLUSION AND FUTURE RESEARCH

ESG practices have become increasingly important in contemporary organisations as sustainability considerations continue to shape corporate strategy and stakeholder expectations. While previous studies have extensively examined the relationship between ESG practices and firm risk, inconsistent empirical findings suggest that the organisational processes underlying this relationship remain insufficiently understood. Responding to this gap, this paper proposed an integrated conceptual framework that explains how ESG practices contribute to sustainable risk management through multiple organisational mechanisms.

The proposed framework makes three principal contributions to the literature. First, it conceptualises ESG practices as strategic organisational capabilities rather than viewing them solely as sustainability reporting or corporate social responsibility initiatives. Second, it adopts a multidimensional perspective of firm risk by recognising systematic risk, total risk, default risk, and credit risk as complementary dimensions of organisational vulnerability. Third, by integrating Stakeholder Theory, Risk Management Theory, Managerial Opportunism Theory, and Institutional Theory, the framework explains how stakeholder relationships, governance and transparency, organisational resilience, and responsible managerial decision-making collectively influence the effectiveness of ESG practices in reducing firm risk.

Beyond its theoretical contribution, the proposed framework offers a practical foundation for organisations seeking to integrate sustainability into enterprise risk management. Rather than treating ESG as a compliance exercise, the framework highlights its strategic role in strengthening organisational resilience, supporting informed managerial decision-making, and enhancing long-term organisational sustainability. Consequently, the framework provides useful insights for managers, investors, creditors, regulators, and policymakers seeking to better understand the organisational value of ESG practices. Unlike previous conceptual discussions that primarily focus on whether ESG affects firm risk, the proposed framework explains the organisational mechanisms through which ESG practices contribute to sustainable risk management across multiple dimensions of firm risk.

Finally, this study provides a platform for future empirical research. The research propositions and conceptual relationships developed in this paper offer opportunities for researchers to examine the proposed framework across different industries, countries, and institutional settings. Future studies may also investigate how individual ESG dimensions influence different categories of firm risk and whether these relationships vary under different organisational and institutional conditions. Such investigations will not only provide empirical validation of the proposed framework but also advance a more comprehensive understanding of how ESG practices contribute to sustainable risk management across diverse organisational and institutional contexts.

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