"Digital systems and sustainability practices in Indonesian manufacturing firms: The mediating role of organizational capability"

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ARTICLE INFO	Elly Susanti, Henny Andriyani Wirananda and Lora Ekana Nainggolan (2026). Digital systems and sustainability practices in Indonesian manufacturing firms: The mediating role of organizational capability. *Investment Management and Financial Innovations*, *23*(3), 37–48. doi:10.21511/imfi.23(3).2026.04
DOI	http://dx.doi.org/10.21511/imfi.23(3).2026.04
RELEASED ON	Thursday, 09 July 2026
RECEIVED ON	Friday, 12 December 2025
ACCEPTED ON	Tuesday, 09 June 2026
LICENSE	This work is licensed under a Creative Commons Attribution 4.0 International License
JOURNAL	"Investment Management and Financial Innovations"
ISSN PRINT	1810-4967
ISSN ONLINE	1812-9358
PUBLISHER	LLC "Consulting Publishing Company "Business Perspectives"
FOUNDER	LLC "Consulting Publishing Company "Business Perspectives"

NUMBER OF REFERENCES	NUMBER OF FIGURES	NUMBER OF TABLES
31	**2**	**9**

BUSINESS PERSPECTIVES

LLC "CPC "Business Perspectives"
Hryhorii Skovoroda lane, 10,
Sumy, 40022, Ukraine
www.businessperspectives.org

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DIGITAL SYSTEMS AND SUSTAINABILITY PRACTICES IN INDONESIAN MANUFACTURING FIRMS: THE MEDIATING ROLE OF ORGANIZATIONAL CAPABILITY

Type of the article: Research Article

Received on: 12th of December, 2025
Accepted on: 9th of June, 2026
Published on: 9th of July, 2026

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Abstract

Digital transformation and sustainability integration increasingly influence strategic decision-making in manufacturing firms, particularly in emerging economies. Despite growing investments in digital infrastructure and sustainability initiatives, empirical evidence regarding their financial implications remains inconsistent. This study examines whether the implementation of enterprise resource planning systems and sustainability practices influences financial performance directly or indirectly through the development of organizational capability in Indonesian manufacturing firms. The empirical analysis uses panel data from 185 firm-year observations of publicly listed manufacturing companies during the period 2020–2024. The proposed framework is tested using partial least squares structural equation modeling. The results indicate that enterprise resource planning implementation significantly strengthens organizational capability ($t = 3.253$; $p = 0.001$), whereas sustainability practices do not demonstrate a statistically significant relationship with capability development ($t = 0.175$; $p = 0.861$). Organizational capability shows a strong positive effect on financial performance ($t = 19.563$; $p < 0.001$) and fully mediates the relationship between enterprise resource planning implementation and financial outcomes ($t = 3.163$; $p = 0.002$). In contrast, neither enterprise resource planning systems nor sustainability practices exhibit significant direct effects on financial performance. These findings suggest that digital infrastructure alone does not automatically generate financial benefits. Financial value emerges when technological resources are effectively embedded in coordinated organizational processes that enhance firm capability. Within the observed emerging-market context, sustainability initiatives appear primarily compliance-oriented and therefore have not yet resulted in measurable improvements in financial performance.

Keywords enterprise resource planning, sustainability practices, organizational capability, financial performance, emerging markets, manufacturing firms

JEL Classification M15, M41, G30

INTRODUCTION

Digital transformation and sustainability pressures are increasingly shaping the strategic priorities of manufacturing firms, particularly in emerging economies where organizational modernization often develops unevenly across industries. Firms invest in integrated digital infrastructures, such as enterprise resource planning systems, to enhance operational coordination, improve information transparency, and support managerial decision-making. At the same time, sustainability initiatives are progressively incorporated into corporate strategies in response to regulatory re-

Conflict of interest statement:
Author(s) reported no conflict of interest

quirements, stakeholder expectations, and the growing importance of environmental and social accountability in business activities.

Despite these developments, the economic implications of digital systems and sustainability initiatives remain ambiguous. Previous studies suggest that digital technologies can improve operational integration and facilitate more effective managerial decision-making; however, their financial outcomes differ considerably across institutional environments and organizational contexts (Bradford & Florin, 2003; Nicolaou & Bhattacharya, 2006). Similarly, sustainability initiatives have been associated with improved governance structures and stronger stakeholder relationships, yet empirical findings regarding their influence on firm performance remain inconsistent across industries and countries (Broadstock et al., 2021; Eccles et al., 2014). These mixed results indicate that investments in technological infrastructure and sustainability practices do not automatically generate measurable financial benefits.

The persistence of such inconsistent findings raises an important scientific problem concerning the mechanisms through which firms convert strategic investments into economic outcomes. In practice, organizations often adopt comparable digital systems and sustainability initiatives but achieve markedly different performance results. This variation suggests that the effectiveness of these investments may depend on internal organizational conditions that allow firms to coordinate resources, integrate operational processes, and respond to changing institutional environments.

This issue is particularly relevant in emerging market settings, where institutional structures, technological readiness, and managerial capabilities vary substantially across firms (Meyer et al., 2009; Peng et al., 2009). Under these circumstances, firms implementing similar digital infrastructures and sustainability practices may experience different financial consequences depending on how effectively these strategic investments are transformed into organizational capabilities. Understanding this transformation process, therefore, represents an important challenge for contemporary research on firm performance and strategic resource utilization.

1. LITERATURE REVIEW AND HYPOTHESES

The growing integration of digital systems and sustainability practices has intensified scholarly debate regarding their economic implications, particularly within emerging market environments where institutional conditions and organizational transformation remain uneven. From a strategic management perspective, firm performance is not solely determined by the acquisition of valuable resources but by the firm's capacity to deploy and recombine those resources effectively. The resource-based perspective posits that enduring competitive advantage originates from resources characterized by value, rarity, inimitability, and non-substitutability; however, later theoretical refinements stress that such resources do not create value independently unless supported by effective organizational utilization and coordination mechanisms (Barney, 1991; Barney et al., 2011). This perspective places organizational capability at the center of value creation.

Building upon this logic, dynamic capability theory contends that sustained firm performance depends on the ability to identify emerging opportunities, mobilize coordinated responses, and continuously realign internal processes to adapt to shifting environmental conditions (Teece, 2007, 2018). Adaptive capacity becomes particularly critical in volatile and institutionally complex settings, where strategic outcomes are shaped not solely by internal resource endowments but also by the dynamic interaction between firms and their surrounding institutional environments (Helfat et al., 2009; Wang & Ahmed, 2007). From an institution-based perspective, firms operating in emerging economies encounter distinctive regulatory constraints and heightened uncertainty, conditions that influence how resources are configured and how strategic choices are executed (Meyer et al., 2009; Peng et al., 2009, 2017). Variations in organizational capability may therefore account for why firms pursuing comparable strategic initiatives achieve markedly different performance results.

http://dx.doi.org/10.21511/imfi.23(3).2026.04

Within this theoretical landscape, enterprise resource planning systems represent a central component of digital infrastructure. In manufacturing firms, where production activities are interdependent and coordination-intensive, ERP systems integrate information across functional units, standardize workflows, and enhance managerial visibility over operations. Prior empirical research indicates that ERP implementation contributes to improved process integration and decision support mechanisms (Bradford & Florin, 2003; Nicolaou & Bhattacharya, 2006). Additional studies conducted in both developed and emerging contexts report that ERP adoption strengthens internal alignment and operational coordination, thereby enhancing organizational effectiveness (Balic et al., 2022; Kurniawati et al., 2015; Nawawi, 2018).

However, the financial consequences of ERP adoption remain inconclusive. Some studies identify positive associations between ERP implementation and firm performance, particularly when digital systems are aligned with green supply chain initiatives or strategic integration efforts (Tarigan et al., 2021). In contrast, other empirical investigations conducted in emerging markets document insignificant or delayed financial effects, suggesting that implementation costs, governance limitations, and capability gaps may offset short-term performance gains (Prabowo et al., 2022; Ramadhanti & Saad, 2021; Yustian & Priono, 2025). Research on digital infrastructure and data analytics capability further reinforces the notion that technological investments generate value only when firms develop the capacity to absorb, interpret, and utilize information effectively (Ghasemaghaei, 2021). Collectively, these findings imply that ERP systems function primarily as enabling resources whose economic impact depends on their transformation into organizational capability rather than acting as direct profitability drivers.

Parallel to digital transformation, sustainability practices have expanded in response to increasing regulatory enforcement, investor pressure, and stakeholder scrutiny. Studies in corporate sustainability suggest that firms engaging in environmental, social, and governance initiatives may benefit from enhanced legitimacy, stronger stakeholder relationships, and improved risk management (Eccles et al., 2014; Khan et al., 2016). Material sustainability investments have been associated with superior long-term outcomes when governance mechanisms and performance measurement systems are aligned with sustainability objectives.

Despite growing scholarly attention, empirical evidence linking sustainability practices to financial performance continues to vary across contextual settings. Meta-analytical and panel-based investigations report positive, insignificant, and even conditional effects depending on institutional environments and governance configurations (Alshehhi et al., 2018; Atan et al., 2018; Broadstock et al., 2021). In emerging markets, sustainability engagement is often shaped by regulatory pressures and legitimacy-seeking behavior rather than deep strategic integration, which may constrain its operational and financial impact (Cuervo-Cazurra & Genc, 2008; Luo & Tung, 2018). Furthermore, institutional constraints and governance quality have been shown to influence the strength of ESG-performance relationships (Meyer et al., 2009). Additional studies indicate that board diversity and audit quality may influence the financial implications of ESG disclosure, highlighting the critical role of internal governance mechanisms (Samy El-Deeb et al., 2023; Wu et al., 2024).

Recent studies also point to the convergence between digital transformation and sustainability. Digital systems enhance transparency, improve ESG data monitoring, and facilitate performance tracking, thereby strengthening the strategic relevance of sustainability initiatives (Sun et al., 2025; Zheng & Bu, 2024). Furthermore, emerging evidence indicates that artificial intelligence applications may amplify sustainability outcomes by improving efficiency and strategic alignment (Mulyana et al., 2025). Despite these advances, sustainability practices in many emerging market firms remain compliance-oriented and disclosure-driven, with limited integration into core operational processes. Under such conditions, sustainability initiatives may enhance external legitimacy without substantially strengthening internal organizational capability.

Taken together, prior research suggests that both ERP systems and sustainability practices possess the potential to influence firm performance.

However, their economic value appears contingent upon the presence of internal transformation mechanisms. Existing studies frequently examine digitalization and sustainability independently, often focusing on direct performance effects. Limited empirical research integrates these domains within a unified framework that explains how strategic resources are converted into financial outcomes through organizational capability, particularly in emerging manufacturing contexts characterized by institutional complexity.

Integrating insights from the resource-based tradition, dynamic capability scholarship, and the institution-based view, this study conceptualizes organizational capability as the mediating mechanism through which digital infrastructure and sustainability practices shape financial performance. By positioning capability as the transformative engine that converts strategic investments into economic returns, the proposed framework reconciles inconsistencies in prior findings and explains heterogeneous performance outcomes among firms operating under comparable institutional conditions.

The objective of this study is to examine the direct and indirect effects of enterprise resource planning systems and sustainability practices on the financial performance of Indonesian manufacturing firms. Specifically, this study investigates the mediating role of organizational capability in explaining how digital infrastructure and sustainability initiatives are transformed into financial outcomes. Based on these objectives, the following hypotheses are proposed.

H1: *Enterprise resource planning systems positively affect organizational capability.*

H2: *Sustainability practices positively affect organizational capability.*

H3: *Organizational capability positively affects financial performance.*

H4: *Enterprise resource planning systems positively affect financial performance.*

H5: *Sustainability practices positively affect financial performance.*

H6: *Organizational capability mediates the relationship between enterprise resource planning systems and financial performance.*

H7: *Organizational capability mediates the relationship between sustainability practices and financial performance.*

2. METHODOLOGY

This study employs a quantitative research design using panel data from manufacturing firms listed on the Indonesia Stock Exchange (IDX). The observation period covers five consecutive years from 2020 to 2024. The manufacturing sector was selected due to its operational complexity, intensive use of integrated information systems, and increasing exposure to sustainability reporting and regulatory requirements.

2.1. Data sources and sample selection

The dataset used in this research was compiled from publicly available corporate disclosures. Financial information was obtained from audited annual reports and financial statements published through the Indonesia Stock Exchange database as well as the official websites of the respective firms. Information related to sustainability practices was collected from corporate sustainability reports and integrated reports. Data regarding the implementation of enterprise resource planning systems were identified from corporate disclosures describing the adoption of integrated enterprise information systems within organizational operations.

The sampling procedure was conducted in several stages. First, all manufacturing companies listed on the Indonesia Stock Exchange during the observation period were identified. Second, firms that did not publish complete financial or sustainability disclosures throughout the study period were excluded to ensure data consistency and comparability. After applying these criteria, the final dataset consists of 185 firm-year observations.

All data used in this study originate from publicly accessible corporate disclosures. Because the

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original data sources are already publicly available through the Indonesia Stock Exchange and company websites, the study does not rely on proprietary or restricted datasets. The compiled dataset used for the empirical analysis can be obtained from the authors upon reasonable request to ensure research transparency and replicability.

2.2. Variable measurement

Enterprise resource planning implementation represents the extent to which firms utilize integrated digital information systems that support coordination across organizational functions and operational processes. Sustainability practices reflect environmental and social initiatives disclosed by firms in their sustainability reporting activities.

Organizational capability refers to a firm's internal ability to coordinate resources, integrate operational processes, and support strategic decision-making within the organization. Financial performance represents the economic outcomes generated by the firm and is measured using accounting-based profitability indicators, specifically return on equity (ROE) and net profit margin (NPM).

Firm size is included as a control variable and measured using the natural logarithm of total assets to account for potential scale effects on financial performance.

2.3. Analytical procedure

The empirical analysis was conducted using partial least squares structural equation modeling (PLS-SEM) with SmartPLS 4 software. This approach is appropriate for examining complex relationships among latent constructs and mediation effects while simultaneously evaluating measurement reliability and structural relationships.

The analysis was performed in two main stages. First, the measurement model was assessed to evaluate the reliability and validity of the constructs. Indicator reliability was examined using outer loading values, while internal consistency and convergent validity were evaluated using composite reliability and average variance extracted (AVE).

Second, the structural model was evaluated to examine the hypothesized relationships among the variables. Bootstrapping procedures were applied to estimate the statistical significance of both direct and indirect effects between constructs. The explanatory power of the model was assessed using the coefficient of determination (R^2), while predictive relevance was evaluated using the Q^2 statistic.

3. RESULTS

The empirical analysis was conducted in two stages, consisting of the evaluation of the measurement model and the examination of the structural relationships among the constructs.

3.1. Measurement model evaluation

The measurement model was first assessed to evaluate the reliability and validity of the constructs. As illustrated in Figure 1, the outer model evaluation indicates that the retained indicators demonstrate acceptable loading values.

Indicator reliability was examined using outer loading values. As reported in Table 1, all retained indicators exhibit loading values above the recommended threshold of 0.70, indicating that the indicators adequately represent their respective constructs.

Table 1. Outer loading

Source: Data processing results (SmartPLS 2025).

Variable	Indicator	Outer Loading	Description
ERP (X1)	Imple (X1.1)	0.716	Valid
	Age (X1.2)	0.878	Valid
ESG (X2)	Env (X2.1)	0.891	Valid
	Soc (X2.2)	0.958	Valid
Company Capability (Z)	OPM (Z.2)	0.920	Valid
	OIROI (Z.3)	0.940	Valid
Financial Performance (Y)	ROE (Y.2)	0.920	Valid
	NPM (Y.3)	0.890	Valid
Size	Size	1.000	Valid

Convergent validity was further evaluated using the average variance extracted (AVE). As presented in Table 2, the AVE values for enterprise resource planning, sustainability practices, organizational capability, and financial performance

Source: Data Processing Results (SmartPLS 2025).

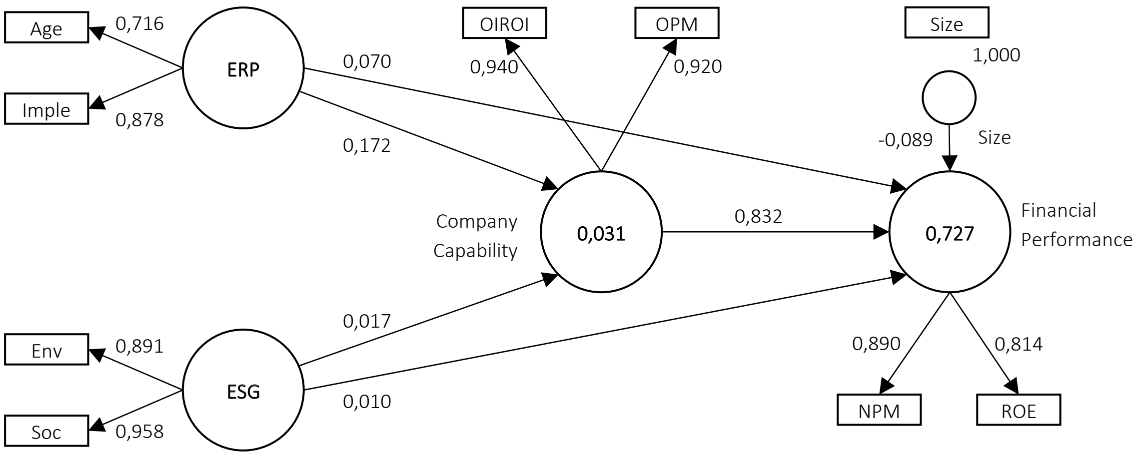

Figure 1. Outer model evaluation

exceed the recommended threshold of 0.50, confirming adequate convergent validity.

Table 2. Convergent validity (Average Variance Extracted)

Source: Data processing results (SmartPLS 2025).

Variable	Average variance extracted (AVE)	Description
ERP	0.642	Valid
ESG	0.855	Valid
Company Capability	0.865	Valid
Financial Performance	0.728	Valid

Discriminant validity was assessed using cross-loading analysis. The results in Table 3 indicate that each indicator loads more strongly on its respective construct than on other constructs, demonstrating satisfactory discriminant validity.

Internal consistency reliability was examined using composite reliability. As shown in Table 4, all constructs exceed the recommended threshold of 0.70, suggesting adequate reliability.

Table 4. Composite reliability

Source: Data processing results (SmartPLS 2025).

Variable	Composite reliability	Description
ERP	0.781	Reliable
ESG	0.922	Reliable
Company Capability	0.928	Reliable
Financial Performance	0.842	Reliable

Cronbach's alpha values are reported in Table 5. Although the values for enterprise resource planning and financial performance fall slightly below the conventional threshold of 0.70, composite reliability values remain above the recommended level. In partial least squares structural equation modeling, composite reliability is considered a more appropriate measure of internal consistency, and therefore the constructs are considered acceptable.

Table 3. Discriminant validity from cross-loading

Source: Data processing results (SmartPLS 2025).

Variable	ERP	ESG	Company Capability	Financial Performance	Size
Age	0.716	0.232	0.097	0.138	0.505
Env	0.139	0.891	0.040	0.030	0.248
NPM	0.185	–0.023	0.794	0.890	–0.155
OIROI	0.176	0.096	0.940	0.836	–0.075
OPM	0.149	–0.007	0.920	0.734	0.039
ROE	0.146	0.127	0.638	0.814	0.024
Size	0.249	0.202	–0.024	–0.089	1.000
Soc	0.223	0.958	0.054	0.057	0.151
Imple	0.878	0.121	0.173	0.174	–0.005

http://dx.doi.org/10.21511/imfi.23(3).2026.04

Table 5. Cronbach's alpha

Source: Data processing results (SmartPLS 2025).

Variable	Cronbach's alpha
ERP	0.457
ESG	0.839
Company Capability	0.845
Financial Performance	0.630

Multicollinearity was assessed using the variance inflation factor (VIF). As presented in Table 6, all VIF values are below the recommended threshold of 5, indicating that multicollinearity does not threaten the estimation of the model.

Table 6. Collinearity statistics test (VIF)

Source: Data processing results (SmartPLS 2025).

Variable	VIF	Description
Age	1.096	No multicollinearity occurred
Env	2.094	No multicollinearity occurred
NPM	1.269	No multicollinearity occurred
OIROI	2.149	No multicollinearity occurred
OPM	2.149	No multicollinearity occurred
ROE	1.269	No multicollinearity occurred
Size	1.000	No multicollinearity occurred
Soc	2.094	No multicollinearity occurred
Imple	1.096	No multicollinearity occurred

3.2. Structural model results

After confirming the adequacy of the measurement model, the structural relationships among the variables were examined.

The structural model is presented in Figure 2, which illustrates the relationships among enterprise resource planning systems, sustainability practices, organizational capability, and financial performance.

The explanatory power of the model was assessed using the coefficient of determination (R^2). As reported in Table 7, enterprise resource planning systems and sustainability practices explain 3.1% of the variance in organizational capability ($R^2 = 0.031$). In contrast, the model explains 72.7% of the variance in financial performance ($R^2 = 0.727$), indicating strong predictive power for firm performance.

Table 7. Coefficient of determination

Source: Data processing results (SmartPLS 2025).

Variable	R-square	R-square adjusted
Company Capability	0.031	0.020
Financial Performance	0.727	0.721

Predictive relevance of the model was evaluated using the Q2 statistic. The obtained Q2 value of 0.735 indicates that the model has substantial predictive relevance.

3.3. Hypothesis testing

Hypotheses were tested using bootstrapping procedures to evaluate the significance of both direct and indirect relationships among the variables.

The results presented in Table 8 indicate that enterprise resource planning systems have a significant positive effect on organizational capability

Source: Data processing results (SmartPLS 2025).

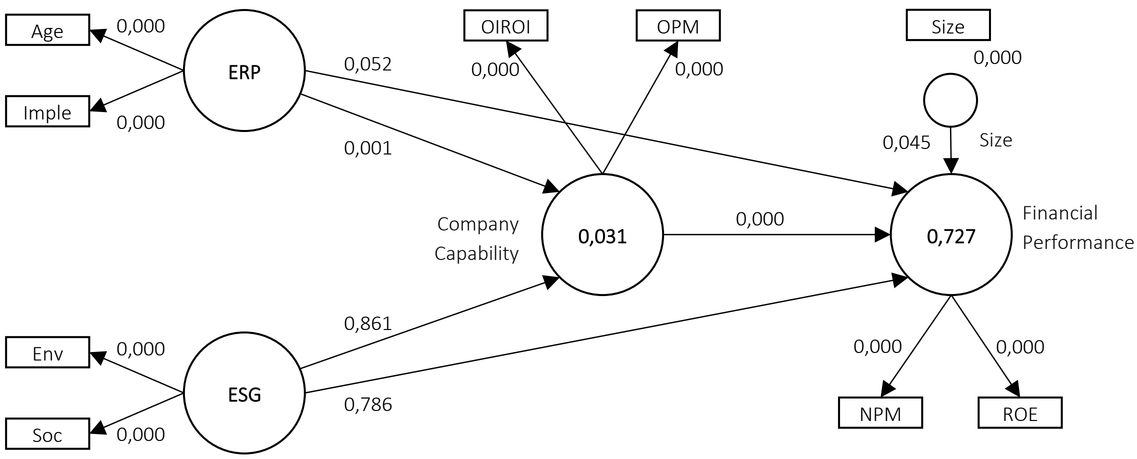

Figure 2. Structural model

(t = 3.253; p = 0.001). However, the direct effect of enterprise resource planning systems on financial performance is not statistically significant (t = 1.940; p = 0.052).

Sustainability practices do not demonstrate a significant effect on organizational capability (t = 0.175; p = 0.861) and also do not show a significant direct effect on financial performance (t = 0.272; p = 0.786).

Organizational capability exhibits a strong positive influence on financial performance (t = 19.563; $p < 0.001$). In addition, firm size, included as a control variable, shows a significant positive effect on financial performance (t = 2.006; p = 0.045).

Mediation analysis was conducted to examine whether organizational capability mediates the relationship between enterprise resource planning systems and financial performance. The results presented in Table 9 indicate that organizational capability significantly mediates the relationship between enterprise resource planning systems and financial performance (t = 3.163; p = 0.002). However, no mediation effect is observed for sustainability practices.

Overall, the findings indicate that enterprise resource planning systems contribute to firm performance primarily by developing organizational capability. In contrast, sustainability practices do not demonstrate a measurable influence on either organizational capability or financial performance within the observed sample.

4. DISCUSSION

The empirical findings provide important insights into the mechanisms through which digital infrastructure and sustainability practices influence firm performance. The results indicate that enterprise resource planning implementation has a positive and statistically significant effect on organizational capability (t = 3.253; p = 0.001). This finding suggests that the adoption of integrated digital systems enhances internal coordination mechanisms and strengthens organizational alignment. In manufacturing firms characterized by complex operational interdependencies, enterprise resource planning systems improve information consistency, facilitate workflow integration, and enhance managerial oversight across functional units. These results are consistent with prior studies indicating that enterprise resource planning adoption contributes to improved operational transparency and more effective decision-support processes (Balic et al., 2022; Bradford & Florin, 2003; Kurniawati et al., 2015; Nawawi, 2018; Nicolaou & Bhattacharya, 2006). Therefore, digital infrastructure appears to create value primarily by strengthening internal organizational capability rather than by directly generating financial outcomes.

In contrast, sustainability practices do not demonstrate a statistically significant relationship with organizational capability (t = 0.175; p = 0.861). This result suggests that environmental, social, and governance initiatives within the ob-

Table 8. Results of direct effect testing

Variable	T statistics	P values	Description
ERP → Company Capability	3.253	0.001	Significant Influence
ERP → Financial Performance	1.940	0.052	No significant effect
ESG → Company Capability	0.175	0.861	No significant effect
ESG → Financial Performance	0.272	0.786	No significant effect
Company Capability → Financial Performance	19.563	0.000	Significant Influence
Size → Financial Performance	2.006	0.045	Significant Influence

Source: Data processing results (SmartPLS 2025).

Table 9. Indirect effect results

Variable	T statistics (|O/STDEV|)	P values	Description
ERP → Company Capability → Financial Performance	3.163	0.002	Significant Influence
ESG → Company Capability → Financial Performance	0.175	0.861	No significant effect

Source: Data processing results (SmartPLS 2025).

http://dx.doi.org/10.21511/imfi.23(3).2026.04

served firms may not yet be systematically integrated into internal operational routines or coordination mechanisms. Instead, sustainability activities may currently operate mainly at the level of disclosure and regulatory compliance rather than as drivers of organizational transformation. Previous studies indicate that sustainability engagement can strengthen governance quality, stakeholder relationships, and long-term resilience (Eccles et al., 2014; Khan et al., 2016). However, empirical evidence in emerging market contexts frequently reports mixed or context-dependent outcomes (Alshehhi et al., 2018; Atan et al., 2018; Broadstock et al., 2021). Institutional pressures in such environments may encourage firms to adopt sustainability reporting primarily to maintain legitimacy rather than to support deeper organizational integration (Cuervo-Cazurra & Genc, 2008; Luo & Tung, 2018). Consequently, sustainability initiatives may enhance external legitimacy without substantially strengthening internal capability development.

The analysis further shows that organizational capability has a strong and statistically significant influence on financial performance ($t = 19.563$; $p < 0.001$). Firms characterized by effective coordination structures, integrated operational processes, and efficient resource mobilization demonstrate a greater ability to convert strategic initiatives into measurable economic outcomes. This finding highlights the central role of organizational capability in shaping firm performance. The resource-based perspective emphasizes that competitive advantage arises not merely from possessing valuable resources but from the ability to organize and deploy those resources effectively (Barney, 1991; Barney et al., 2011). Similarly, dynamic capability theory argues that sustained performance depends on the firm's capacity to integrate, reconfigure, and adapt organizational processes in response to environmental changes (Helfat et al., 2009; Teece, 2007, 2018; Wang & Ahmed, 2007). The present findings therefore reinforce the argument that organizational capability is the primary mechanism through which strategic resources generate financial value.

The results also reveal that enterprise resource planning systems do not exert a statistically significant direct effect on financial performance ($t = 1.940$; $p = 0.052$). This indicates that the implementation of digital systems alone does not automatically produce short-term profitability improvements. Similar findings have been reported in several empirical studies examining enterprise resource planning adoption in emerging market environments (Prabowo et al., 2022; Ramadhanti & Saad, 2021; Yustian & Priono, 2025). Technological infrastructure contributes to firm performance only when organizations possess sufficient absorptive and integrative capacity to utilize digital information effectively (Ghasemaghaei, 2021). Accordingly, enterprise resource planning systems should be understood primarily as enabling platforms whose economic benefits depend on complementary organizational capabilities rather than as direct determinants of financial performance.

Similarly, sustainability practices do not demonstrate a statistically significant direct influence on financial performance ($t = 0.272$; $p = 0.786$). This finding indicates that sustainability engagement among the examined firms has not yet translated into measurable financial outcomes. Although sustainability initiatives may enhance corporate legitimacy and strengthen stakeholder relationships (Eccles et al., 2014; Khan et al., 2016), their economic consequences appear to depend on deeper integration into corporate strategy and operational systems. Prior research also reports heterogeneous relationships between environmental, social, and governance practices and firm performance across different institutional environments (Alshehhi et al., 2018; Atan et al., 2018; Broadstock et al., 2021). In emerging markets, firms may adopt sustainability initiatives primarily to comply with regulatory expectations or improve corporate reputation, which may limit their immediate financial impact.

Finally, the mediation analysis confirms that organizational capability fully mediates the relationship between enterprise resource planning systems and financial performance ($t = 3.163$; $p = 0.002$). This finding indicates that digital investments contribute to financial outcomes indirectly by strengthening internal coordination structures and organizational processes. The result supports theoretical arguments that technological resources generate value only when embedded within firm-specific capabilities (Barney, 1991; Barney et al., 2011). Conversely, organizational capability does not mediate the relationship between sustainability practices and financial performance ($t = 0.175$; $p = 0.861$). This suggests that sustainability initiatives within the observed firms remain insufficiently integrated into internal capability-building mechanisms to influence financial outcomes. Overall, the findings reveal distinct value-creation pathways in which digital infrastructure improves firm performance through capability development, while sustainability practices in the observed emerging-market manufacturing context remain largely compliance-oriented and therefore have not yet produced measurable financial effects.

CONCLUSION

This study examines whether enterprise resource planning systems and sustainability practices influence financial performance directly or indirectly through organizational capability in Indonesian manufacturing firms. The empirical findings indicate that enterprise resource planning implementation significantly strengthens organizational capability. However, enterprise resource planning systems do not demonstrate a statistically significant direct effect on financial performance, suggesting that digital technologies generate economic value primarily when effectively embedded within organizational processes.

The results also reveal that sustainability practices do not exhibit a significant relationship with either organizational capability or financial performance. This finding suggests that sustainability initiatives among the observed firms may still be implemented largely as compliance-oriented activities rather than as strategically integrated organizational practices capable of generating measurable financial outcomes. In contrast, organizational capability demonstrates a strong positive influence on financial performance and fully mediates the relationship between enterprise resource planning systems and firm performance.

Overall, the findings highlight the central role of organizational capability in transforming strategic investments into economic results. From a managerial perspective, firms should focus not only on adopting digital infrastructure but also on strengthening internal coordination mechanisms and process integration to ensure that technological investments contribute effectively to firm performance. Future research may extend this analysis by examining other industries or institutional contexts to further explore how strategic investments are translated into financial outcomes.

AUTHOR CONTRIBUTIONS

Conceptualization: Elly Susanti, Lora Ekana Nainggolan.
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Writing – review & editing: Henny Andriyani Wirananda, Lora Ekana Nainggolan.

http://dx.doi.org/10.21511/imfi.23(3).2026.04

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