Financial Risk and Management: An International Journal
Volume 2, Number 2, 2023

The Effect of Financial Risk Governance on Volatility Management in Multinational Corporations

Khansa Nurunnisa Hudaepah[1],

[1] Universitas Muhammadiyah Malang, Malang, Indonesia

Abstract

Article history:
Received: July 20, 2023
Revised: September 18, 2023
Accepted: October 13, 2023
Published: December 30, 2023

Keywords:
Corporate Governance,
Enterprise Risk Management,
Financial Risk,
Multinational Corporations,
Volatility.

Identifier:
Zera Open
Page: 98-110
https://zeraopen.com/journal/frmij

This article investigates how financial risk governance influences volatility management in multinational corporations operating under heightened macroeconomic and geopolitical uncertainty. The main question is how structures such as board risk committees and enterprise risk management frameworks affect volatility in earnings, cash flows and firm value across complex cross border operations. The study adopts a systematic literature review of peer reviewed research published between 2018 and 2022, synthesizing evidence from banking, insurance and non-financial multinational settings. The results indicate that stronger risk governance is generally associated with more disciplined risk taking, more coherent hedging and capital policies, and more stable solvency and performance indicators, although transition and disclosure effects can temporarily increase measured risk. The article discusses these patterns through thematic analysis of governance mechanisms, volatility measures and international context. The main findings highlight that integrated financial risk governance is a key channel for stabilizing financial outcomes, while empirical evidence specific to multinational groups remains limited.

1. Introduction

Heightened macroeconomic and geopolitical uncertainty has intensified the financial risks faced by multinational corporations. Exchange rate swings, interest rate shifts, commodity price shocks and abrupt changes in cross border capital flows all translate into volatility in cash flows, earnings and firm value. For globally active firms, these exposures are amplified by complex organizational structures and regulatory fragmentation, which makes effective financial risk governance a strategic concern rather than a purely technical treasury issue. Empirical work on enterprise risk management and board level oversight provides evidence that formal risk governance can influence financial strength, solvency and market valuation, but the implications for managing volatility in multinational settings remain only partially understood (Ames et al., 2018; Silva et al., 2019; Nguyen & Vo, 2020).

Recent studies view enterprise risk management as an integrated governance system that links board risk committees, risk appetite, and hedging policies to performance outcomes and financial stability (González et al., 2020; Saeidi et al., 2021). Research on insurers and listed firms in Europe, Latin America and emerging markets suggests that structured risk governance can enhance solvency, support firm value and moderate the impact of shocks, although the magnitude and direction of these effects are not always consistent (Silva et al., 2019; Nguyen & Vo, 2020; González et al., 2020). At the same time, there is growing evidence that high quality enterprise risk management can dampen earnings volatility, indicating that governance around risk identification, measurement and reporting can shape volatility profiles directly (Adhariani, 2022). Work on multinational enterprises highlights how global risk mitigation strategies rely on political, regulatory and stakeholder coalitions, implying that financial risk governance extends beyond internal controls to the way firms manage external constraints in host countries (Zhu & Sardana, 2020).

However, existing scholarship is fragmented across insurance, banking and non-financial sectors, and only a small subset explicitly examines multinational corporations or focuses on volatility management as the primary outcome. There is still limited synthesis of how specific governance mechanisms such as board risk committees, enterprise risk management quality and global hedging strategies jointly affect earnings, cash flow and value volatility in multinational firms (Ames et al., 2018; Adhariani, 2022). This article addresses that gap by conducting a systematic literature review of peer reviewed studies published from 2018 to 2022. The review asks how financial risk governance has been conceptualized in relation to volatility, what empirical evidence exists on its effects in multinational contexts, and which governance features appear most effective in practice. By integrating these findings, the study aims to clarify the problem of how multinationals can design financial risk governance to manage volatility more effectively, to situate the evidence within broader debates on enterprise risk management and corporate governance, and to outline practical and research implications for boards, risk officers and regulators concerned with the resilience of global firms.

2. Literature Review

The literature on financial risk governance and volatility management emphasizes the central role of integrated risk frameworks in shaping firms' resilience to shocks. Enterprise risk management is positioned as the core governance mechanism that coordinates risk oversight across strategic, financial and operational domains, replacing fragmented, silo-based approaches. Studies in insurance and non-financial sectors show that stronger ERM structures, combined with board level oversight, are associated with more disciplined risk taking and improved alignment between risk appetite and corporate strategy (Ames et al., 2018; González et al., 2020; Saeidi et al., 2021). Empirical evidence from Brazil and the EU indicates that well designed ERM frameworks can enhance firm value and solvency by reducing downside risk and improving the predictability of financial performance (Silva et al., 2019; Bohnert et al., 2019; Nguyen & Vo, 2020). However, much of this work focuses on single country or sector specific samples, and only indirectly addresses volatility management in multinational contexts.

A growing strand of research examines how specific governance mechanisms influence risk outcomes and performance stability. Board risk committees, independent risk officers and formalized risk appetite statements are found to strengthen monitoring of financial exposures and constrain excessive risk taking, particularly in regulated sectors such as insurance and banking (Ames et al., 2018; Abid et al., 2021; Raouf & Ahmed, 2022). Adhariani (2022) shows that more mature ERM practices are associated with lower earnings volatility, suggesting that risk governance affects not only the level of risk but also its variability over time. Saeidi et al. (2021) highlight that ERM can improve performance through competitive advantage and strategic positioning, implying that the link between governance and volatility is mediated by broader organizational capabilities. Yet most of these studies treat firms as largely domestic entities, while multinational corporations face additional layers of complexity arising from multiple currencies, regulatory regimes and political environments.

The literature on multinational enterprises adds a cross border dimension to risk governance but often stops short of explicitly analyzing volatility management. Zhu and Sardana (2020) argue that multinationals rely on political and stakeholder coalitions in host countries to mitigate regulatory and political risks, indicating that external relational strategies complement internal governance mechanisms. Other work on cash flow volatility and investment behavior suggests that volatility can constrain investment and reduce firm value, reinforcing the importance of governance arrangements that stabilize financial outcomes (Njuguna et al., 2022). Taken together, these strands point to a conceptual gap: while ERM and financial risk governance are linked to solvency, value and performance, there is still limited integrated evidence on how specific governance features influence volatility management in multinational corporations. Addressing this gap provides the theoretical foundation for the present systematic review.

3. Methods

This study uses a systematic literature review to synthesize existing research on the effect of financial risk governance on volatility management in multinational corporations. The review focuses on peer-reviewed journal articles published between 2018 and 2022. Searches were conducted in major academic databases such as Scopus, Google Scholar and ScienceDirect, using combinations of keywords related to enterprise risk management, financial risk governance, volatility, multinational corporations and firm performance. Only articles written in English and examining governance or risk management structures in relation to financial risk, volatility or stability were considered. Conference papers, book chapters, non-academic reports and studies that did not provide a clear link between risk governance and volatility outcomes were excluded.

After the initial search, duplicates and clearly irrelevant records were removed by screening titles and abstracts. Full texts of the remaining articles were then reviewed to confirm that they addressed financial risk governance and reported, discussed or implied effects on volatility in earnings, cash flows or firm value, particularly in multinational or internationally active firms. For each included study, information was extracted on context, type of firm, governance mechanisms, risk management practices and volatility related outcomes. The findings were synthesized using qualitative thematic analysis, grouping studies around key governance mechanisms and channels through which they influence volatility, in order to identify common patterns, gaps and directions for future research.

4. Results and Discussion

The review suggests that financial risk governance in multinational corporations is closely connected to how effectively firms manage volatility, although the available evidence is dispersed across industries and risk measures. Many of the studies focus on internationally active banks and insurers, using indicators such as earnings and stock return volatility, solvency ratios and rating assessments to capture risk outcomes. Overall, stronger governance structures at board level, especially the presence of dedicated risk committees and clear oversight arrangements, tend to be associated with lower downside risk and more stable performance. Ames et al. (2018) show that insurers with board risk committees enjoy better financial strength ratings and performance, indicating that formal oversight can help align risk appetite with capital buffers in complex financial groups. Likewise, Nguyen and Vo (2020) and González et al. (2020) find that firms adopting enterprise risk management exhibit distinct risk and capital patterns compared to non-adopters, suggesting that ERM is a key governance lever that shapes risk exposure and volatility.

Across the sampled work, enterprise risk management emerges as the main conduit through which governance influences volatility. Studies on European, Brazilian and other listed firms indicate that ERM quality and board engagement are linked to both the level and variability of risk indicators. Bohnert et al. (2019) document that higher ERM ratings are associated with greater shareholder value, consistent with the idea that integrated risk frameworks lower the marginal cost of reducing risk and support more efficient capital allocation. Silva et al. (2019) and Mottoh and Sutrisno (2020) similarly report that firms with more developed ERM arrangements tend to achieve higher firm value while managing risk exposures and earnings fluctuations more effectively. At the same time, Nguyen and Vo (2020) show that ERM adoption can coincide with temporary pressure on solvency ratios, which they interpret as reflecting adjustment costs and greater transparency as risk positions are reassessed. Taken together, these findings imply that ERM can improve volatility management over the longer term, even if short term indicators sometimes deteriorate during the transition phase.

When the focus narrows to multinational corporations, governance structures appear to interact with external risk mitigation instruments, particularly foreign exchange and interest rate hedging. Zhu and Sardana (2020) argue that multinationals operating in emerging markets rely not only on financial tools but also on political and stakeholder coalitions to manage regulatory and institutional risks, indicating that financial risk governance must be embedded in a broader strategic and relational context. Meta analytic evidence by Geyer-Klingeberg et al. (2021) indicates that corporate financial hedging is, on average, associated with higher firm value, which is consistent with the view that well designed hedging programs reduce the costs of financial distress and earnings volatility, although the strength of this effect varies with firm characteristics and institutional environments. The studies that explicitly consider multinational firms suggest that groups with clearer risk appetite statements and stronger board oversight are more likely to implement coherent, long horizon hedging strategies aligned with consolidated exposures, which contributes to smoother financial outcomes over time compared with more ad hoc hedging.

Another set of contributions looks directly at risk governance bodies such as board risk committees and their implications for risk taking and volatility. Abid et al.

(2021) find that banks with stronger risk governance in Asia tend to avoid excessive risk taking while maintaining profitability, which is consistent with more controlled and predictable risk profiles. Malik et al. (2021) show that firms that voluntarily establish board risk committees experience lower financial constraints risk, suggesting that the market views these structures as credible signals of enhanced monitoring and loss absorbing capacity. Together with the evidence from Ames et al. (2018), these results point to risk committees as important mechanisms through which multinational groups can coordinate volatility management across subsidiaries, align treasury activities with group wide limits and communicate risk posture to investors and regulators. Some ERM studies also indicate that improved governance may enable firms to accept more strategic risk within defined boundaries, implying that the objective is not necessarily to minimize volatility but to transform unmanaged risk into managed, risk adjusted volatility.

Overall, the synthesis indicates that financial risk governance influences volatility management through three broad channels. First, board structures and risk committees determine how intensively risks are monitored, how risk appetite is defined and how risk information is incorporated into strategy, with observable links to solvency, ratings and firm value. Second, formal ERM systems provide the architecture for identifying and aggregating exposures across units and jurisdictions, allowing multinational corporations to coordinate hedging and capital allocation more effectively, even if the immediate impact on measured volatility can vary during implementation. Third, governance quality conditions the effectiveness of specific risk mitigation tools such as foreign exchange hedging, which appears to reduce volatility most reliably when embedded in clear policies overseen at board level. At the same time, important gaps remain. Very few studies measure volatility at the consolidated multinational group level, and there is limited empirical work that directly connects detailed governance design choices to changes in earnings, cash flow or stock return volatility. Future research would benefit from combining granular governance data with multi country volatility measures to identify which combinations of boards, risk committees and ERM processes most effectively stabilize financial outcomes in large multinational corporations.

5. Conclusion

This review concludes that financial risk governance plays a significant role in how multinational corporations manage volatility, even though the existing evidence is fragmented and often indirect. Across banks, insurers and listed firms, stronger governance structures, particularly board risk committees and formal enterprise risk management frameworks, are generally associated with better alignment between risk appetite, capital buffers and exposure profiles. These arrangements tend to support more stable solvency positions, improved ratings and higher firm value, suggesting that governance is a key lever through which firms can influence the level and pattern of financial volatility over time.

The findings also show that governance influences volatility management through multiple channels rather than a single mechanism. Enterprise risk management provides the architecture for identifying, aggregating and monitoring risks across business units and jurisdictions, while board oversight shapes strategic decisions about hedging, leverage and liquidity. In multinational settings, these internal mechanisms interact with external strategies such as foreign exchange hedging and political coalition building in host countries. The evidence suggests that when risk governance is coherent and well resourced, firms are more likely to implement consistent, long horizon volatility management strategies, instead of ad hoc responses to shocks.

At the same time, the review highlights important gaps and limitations in the current literature. Few studies explicitly focus on multinational corporations or measure volatility at the consolidated group level, and there is limited quantitative work linking specific governance design features to changes in earnings, cash flow or stock return volatility. Many findings are drawn from single country or sector specific samples, which constrains generalization to diverse multinational contexts. Future research should integrate detailed data on boards, risk committees and enterprise risk management quality with multi country volatility measures and explicit multinational samples. Doing so would help identify which combinations of governance mechanisms most effectively stabilize financial outcomes and would provide more concrete guidance to boards, risk officers and regulators seeking to strengthen financial risk governance in globally active firms.

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