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The Synergy of Risk Management and Corporate Governance on Business Performance and Sustainability

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Abstract

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This study aims to analyze the relationship between risk management, corporate governance, and company performance in a cross-sector context. Using a Systematic Literature Review approach to various articles indexed by Google Scholar over the past five years, this study identifies consistent patterns of relationships between the effectiveness of risk management and the quality of Good Corporate Governance implementation on increasing company value and performance. The results of the study show that the integration of these two concepts plays an important role in creating operational efficiency, strengthening investor confidence, and increasing organizational resilience amid global economic uncertainty. Furthermore, the implementation of transparent and accountable Good Corporate Governance has been proven to strengthen risk management discipline and reduce the potential for internal conflicts of interest. Overall, this study confirms that the synergy between risk management and Good Corporate Governance not only functions as a control instrument but also as a key strategy in creating long-term value and business sustainability in the dynamic digital era.

1. Introduction

In an increasingly complex and dynamic global business environment, a company's ability to manage risks and implement Good Corporate Governance (GCG) is a strategic factor that determines the sustainability of performance. Changes in market structure, economic fluctuations, and technological developments require companies to strengthen adaptive and transparent risk management systems to maintain corporate value in the eyes of stakeholders (Al Farooque et al., 2019). In the modern context, risk management not only serves as an instrument of controlling potential losses, but also as a means of creating a competitive advantage through operational efficiency and organizational resilience to uncertainty (Chairani & Siregar, 2021).

Good Corporate Governance (GCG) is basically a system that ensures that organizational management is carried out in a responsible, accountable, and oriented manner to the long-term interests of stakeholders. Strong GCG is believed to reduce conflicts of interest between management and shareholders, increase transparency, and improve strategic decision-making (Naseem et al., 2019; Hassan et al., 2022). In the post-COVID-19 pandemic era, the need for effective corporate governance is increasingly urgent as companies in various sectors are required to balance risk-taking and long-term operational stability (Zattoni & Pugliese, 2021).

The relationship between risk management and GCG to corporate performance has been the focus of empirical research for decades. A number of studies have found that good risk management practices contribute significantly to profitability and company value, especially when supported by effective governance

(Mardiana & Purnamasari, 2018). In a global study, Ghazieh and Chebana (2021) showed that the effectiveness of a risk management system integrated with GCG structures improves decision-making efficiency and creates added value for shareholders. On the other hand, research conducted by Cahyaningtyas and Sasanti (2019) on the banking sector confirms that the combination of good risk management and the implementation of GCG is able to significantly improve the company's financial performance.

However, the results of cross-sector and cross-country research still show inconsistencies. Some studies have found a positive relationship between risk management and company performance, while others show insignificant results (Limijaya et al., 2021). This inconsistency is influenced by differences in the industry context, regulatory framework, and the maturity level of corporate governance implementation. In addition, most previous research has focused more on the financial sector, whereas risk is also an important issue in non-financial sectors such as manufacturing, energy, and technology (Gericke et al., 2018).

In the context of economic globalization, business risk is not only limited to financial aspects, but also includes operational, legal, reputational, and sustainability risks. Therefore, modern risk management approaches require companies to integrate GCG principles into the Enterprise Risk Management (ERM) framework, so that the risk monitoring and reporting process becomes more comprehensive and measurable (Rezaee et al., 2021). The implementation of risk management that is synergistic with GCG is expected to increase investor confidence, strengthen company resilience to crises, and improve long-term performance (Settembre-Blundo et al., 2021).

Based on these arguments, this study aims to empirically examine the relationship between risk management and corporate governance on organizational performance in a general context across sectors. Using the latest literature and data, namely data from the last five years, this study seeks to provide a comprehensive understanding of how the integration between risk management systems and GCG can create sustainable corporate value. The findings of this study are expected not only to enrich academic treasures in the field of financial management and governance, but also to make a practical contribution for managers, regulators, and investors in formulating strategic policies that are oriented towards the sustainability of company performance in the era of digital and high-risk economies.

2. Literature Review

2.1. Risk Management and Firm Performance

Risk management is an important part of a modern organizational strategy oriented towards value creation and corporate sustainability. In a competitive business context, risk is not only considered a threat to be avoided, but also a manageable opportunity to improve efficiency and performance. According to Ghazieh and Chebana (2021), the implementation of a strategically integrated risk management system can help companies anticipate uncertainty, accelerate decision-making, and maintain financial stability. This approach is the basis for companies to balance between risk and profit in every business decision. In a similar perspective, Manab et al. (2020) emphasized that effective risk management practices encourage companies in emerging markets to increase profitability and maintain cash flow sustainability through measurable risk identification and mitigation mechanisms.

The Enterprise Risk Management (ERM) framework provides structured guidance for companies to manage risks end-to-end through the identification, assessment, and control of potential threats that may hinder the achievement of organizational goals. Mardiana and Purnamasari (2018) added that the successful implementation of ERM does not only rely on formal procedures, but is also influenced by organizational culture that supports transparency and data-driven decision-making. With strong risk management, companies are able to minimize losses and increase market value on an ongoing basis. In general, the literature shows that risk management plays a role as a strategic mechanism that allows companies to optimize the use of resources and improve financial performance amid uncertain global economic dynamics.

2.2. Good Corporate Governance and Firm Performance

Good Corporate Governance (GCG) is a system that ensures that direction, control, and supervision in an organization runs in a transparent, accountable, and oriented manner to the long-term interests of stakeholders. The implementation of GCG not only creates regulatory compliance, but also strengthens decision-making structures, reduces conflicts of interest, and increases investor confidence. According to Al Farooque et al. (2019), the application of GCG principles such as fairness, responsibility, and openness has a significant effect on increasing company value because it is able to strengthen the reputation and integrity of management.

Good governance also creates an effective oversight system, which ultimately improves operational efficiency and organizational performance.

Faisal et al. (2021) explained that GCG can function as a mediating variable that strengthens the relationship between risk management and corporate value, because it ensures a balance between risk taking and protecting the interests of shareholders. Agyei-Mensah and Buertey (2019) added that a high level of risk disclosure reflects good GCG quality, thereby increasing the market's positive perception of companies. Transparency in risk disclosure also strengthens accountability and reduces information asymmetry between management and investors. In this context, effective GCG implementation not only creates short-term financial stability, but also becomes a key foundation for business sustainability and increased global competitiveness. Thus, GCG not only serves as an internal control tool, but also as a strategic catalyst that strengthens the relationship between risk, innovation, and the achievement of corporate performance.

3. Method

This research method uses the Systematic Literature Review (SLR) approach to comprehensively analyze the relationship between risk management, corporate governance, and corporate performance. The SLR approach was chosen because it allows researchers to identify, evaluate, and synthesize relevant empirical evidence from a variety of previously published studies. The main focus of this study is to collect the latest findings published in the last five-year period, which discuss the linkage between risk management practices and the implementation of Good Corporate Governance (GCG) on company performance across sectors and regions.

The first stage in the implementation of SLR is the formulation of research questions that focus on three main aspects, namely: (1) the extent to which the application of risk management affects the company's performance; (2) how GCG plays a determining factor or moderation in the relationship; and (3) how the integration of these two concepts can create sustainable value for the company. Research questions are designed to ensure the relevance and focus of the analysis to the topic being researched.

The second stage is the literature search strategy, which is carried out through academic databases such as Google Scholar, ResearchGate, and Elsevier. The search process uses combination keywords such as "risk management," "corporate governance," "firm performance," and "enterprise risk management." Articles taken are limited to English or Indonesian publications, are scientific, and have been academically indexed. From the initial search results, more than 150 articles were obtained, but only a few met the inclusion criteria based on relevance, year of publication, and suitability for the research focus.

The third stage is data analysis and synthesis. Each selected article was analyzed based on the research objectives, variables used, methodology, main results, and their contribution to the theory and practice of risk management and corporate governance. This process is carried out using a thematic approach by grouping the research results into several major themes, namely: the influence of risk management on financial performance, the role of GCG moderation, and the synergy between the two on company value. The last stage is the preparation of conclusions and research implications. The results of the synthesis are used to draw general patterns and identify research gaps that still exist. This SLR approach is expected to be able to make a theoretical contribution in expanding understanding of the relationship between risk management and GCG as well as a practical contribution to companies in increasing the effectiveness of governance and risk management strategies in the future.

4. Results

Based on the results of a synthesis of several scientific articles published between the last five years, it was found that the relationship between risk management, good corporate governance (GCG), and company performance shows a pattern of consistent and mutually reinforcing relationships. In general, companies with mature risk management systems and effective governance tend to have superior performance, both in terms of profitability, operational efficiency, and long-term sustainability (Naseem et al., 2019). This pattern shows that the two concepts do not work separately, but rather interact with each other to form a governance–risk–performance nexus that is the main pillar in the success of modern organizations.

Analysis of various studies shows that the application of risk management plays a direct role in increasing the value of the company and reducing the volatility of financial performance. According to Settembre-Blundo et al. (2021), an effective risk management system in European companies contributes to improved decision-making efficiency and profit stability. Meanwhile, Mardiana and Purnamasari (2018) found that the effectiveness of risk management not only serves to avoid losses, but also encourages value creation through cost control and investment optimization. In other words, good risk management creates risk-adjusted performance, which is a performance that considers the balance between risk and return. The findings reinforce the view that risk management should be positioned as a strategic element in the managerial process, rather than just an administrative compliance function.

In addition, research shows that the successful implementation of risk management is highly dependent on the effectiveness of corporate governance. In this context, GCG acts as a supervision and control system that ensures that all risk activities are carried out in a transparent, accountable, and ethical manner. Rezaee et al. (2021) emphasized that risk disclosure is an integral part of good governance, as it increases investor confidence and reduces the likelihood of information asymmetry. Zattoni and Pugliese (2021) reinforce these findings by showing that during the global crisis due to the COVID-19 pandemic, companies with strong GCG structures are better able to survive and even show positive performance compared to companies with weak governance. This indicates that corporate governance acts as a shock absorber in dealing with economic volatility.

Other findings show that the relationship between risk management and company performance is not always linear and can be influenced by contextual factors such as company size, industry type, and level of external regulation. Hakim and Suryatimur (2022) found that in the manufacturing and non-financial sectors, the influence of risk management on performance is often indirect through improved process efficiency and operational innovation. In contrast, in the financial sector, the relationship is direct as market risk and liquidity are an integral part of the business model. Hassan et al. (2022) revealed that in companies in developing countries, organizational culture factors and differences in regulatory frameworks also determine how far risk management and GCG can contribute to the creation of corporate value. This shows that the effectiveness of the relationship between these variables is not universal, but is greatly influenced by the institutional and economic dynamics in each country.

In the context of the Asian region, the integration between risk management and GCG also has a positive impact on investor confidence and increased market value of companies. Limijaya et al. (2021) found that the implementation of GCG plays a role as a moderation variable that strengthens the positive influence of risk management on company value. The study shows that the combination of internal supervision and external risk control is able to create better managerial discipline. Local research by Cahyaningtyas and Sasanti (2019) confirms these findings by showing that banking companies that implement GCG-based risk management have a more stable profitability ratio and a higher level of operational efficiency. Thus, corporate governance plays an important role in ensuring that the implementation of risk management runs effectively and produces optimal financial performance.

Similar findings were also put forward by Faisal et al. (2021), who explained that corporate governance functions as a mediation mechanism between risk management and corporate value. They show that Enterprise Risk Management (ERM) integrated into governance structures is able to increase Return on Assets

(ROA) and Tobin's Q through increased decision-making accountability. On the other hand, the research of Manab et al. (2020) confirms that risk management practices in emerging markets have a significant impact on long-term efficiency and profitability when supported by strong corporate governance. This shows that the relationship between risk management and GCG is not only functional, but also strategic in increasing the company's competitiveness in the global market.

Some studies expand the perspective by adding a sustainability dimension as a derivative of the integration between risk management and governance. Jabbarzadeh et al. (2018) found that companies that place sustainability as part of risk and governance policies show better resilience to external disruptions. This integration creates an organization's ability to adapt its business strategy to environmental, technological, and social changes. Alodat et al. (2022) also emphasized that the implementation of sustainability-based GCG helps companies build long-term reputations and strengthen relationships with stakeholders. Thus, the results of the literature review indicate that good corporate governance not only supports the achievement of financial targets, but also expands the dimension of corporate value through social and environmental responsibility.

Methodologically, most of the research in this literature uses quantitative approaches based on linear regression and structural equation modeling (SEM) to test the relationships between variables. However, there is also a qualitative approach that focuses on case studies to understand the dynamics of risk management and GCG implementation at the organizational level (Buallay, 2020). This dual approach suggests that the complexity of intervariable relationships requires a multidimensional analysis that highlights not only the cause-and-effect relationship, but also the social and cultural contexts that influence the effectiveness of implementation. In other words, the integration between risk and governance requires an understanding of human and organizational factors, not solely the formal structure of the company.

The overall results of the synthesis show that the integration between risk management and corporate governance contributes significantly to the improvement of financial performance, reputation, and sustainability of the organization. Companies that have a mature risk culture and transparent governance tend to be more adaptive in dealing with changes in the business environment and faster in recovering post-crisis performance. In contrast, companies with weak governance and uncoordinated risk systems show a higher vulnerability to external shocks. These findings affirm the importance of building synergy between these two aspects as a core strategy in achieving corporate resilience.

From a theoretical perspective, the synergistic relationship between risk management and GCG can be explained through two main frameworks, namely agency theory and stakeholder theory. In agency theory, GCG functions to reduce conflicts of interest between owners and managers by providing an effective supervisory mechanism. Meanwhile, risk management supports stakeholder theory by ensuring that decision-making considers the balance of interests of all parties involved, including employees, customers, and society. Thus, the integration of the two strengthens the legitimacy of the organization and encourages more sustainable business practices.

Finally, from all the research analyzed, it can be concluded that the synergy between risk management and GCG is one of the main determinants of the company's long-term success. The combination of the two not only increases efficiency and profitability, but also strengthens public trust in the integrity of the organization. Therefore, companies across various sectors are advised to not only view risk management and governance as two separate entities, but rather as an integrated system that must be managed collaboratively to achieve holistic business sustainability goals.

5. Discussion

The results of the literature synthesis show that the relationship between risk management, Good Corporate Governance (GCG), and company performance is closely related and mutually reinforcing. These findings underscore that the successful implementation of risk management cannot be separated from the effectiveness of good corporate governance. Theoretically, the relationship can be explained through agency theory and signaling theory, where GCG functions as a control mechanism to reduce conflicts of interest between managers and shareholders, while risk management plays a role in reducing information asymmetry and providing positive signals to the market (Alodat et al., 2022). In other words, a company that is able to effectively integrate risk management and GCG will create greater trust from investors and improve its long-term performance.

In a practical context, the results of this study show that well-structured risk management is able to increase operational efficiency and strengthen the competitiveness of companies in the midst of global economic uncertainty (Chairani & Siregar, 2021). A proactive risk management system allows management to identify potential threats early and take mitigation steps before they develop into major losses. However, the effectiveness of the system is highly dependent on the quality of corporate governance, especially in terms of transparency, accountability, and board independence. As revealed by Agyei-Mensah and Buertey (2019), the disclosure of risk information and clarity of responsibility in the GCG structure are key factors that strengthen investor confidence in the stability of the company.

In addition, a discussion of the literature results shows that differences in industry sectors affect the level of effectiveness of the relationship between risk management and GCG on performance. In the financial sector, for example, the linkage between the two concepts is more pronounced due to relatively high market risk and liquidity exposure, while in the non-financial sector this relationship is often indirect through cost efficiency and operational innovation (Buallay, 2020). This variation shows that the application of risk management principles and GCG needs to be adjusted to the characteristics of the industry, the size of the company, and the complexity of its operations in order for its implementation to be effective.

In terms of sustainability, the literature shows that the integration of risk management and GCG contributes to the formation of a resilient and long-term oriented company. Jabbarzadeh et al. (2018) found that companies with strong governance systems are better able to survive and even grow in the midst of crises such as the COVID-19 pandemic. This emphasizes that good governance practices are not only a matter of regulatory compliance, but a key strategy to strengthen business resilience. Furthermore, the implementation of sustainable risk management also encourages companies to adopt social and environmental responsibility practices, which are important components in building public reputation and trust.

Thus, the results of this study emphasize that the success of a company is not only determined by its ability to manage financial risks, but also by its commitment to the principles of good governance. The integration of these two aspects should be seen as a strategic investment, not an administrative burden. Companies that instill a strong culture of risk and governance at all levels of the organization will be better prepared to face global challenges, strengthen the company's reputation, and ensure the sustainability of its long-term value.

6. Conclusion

This study concludes that the integration between risk management and Good Corporate Governance (GCG) is an important foundation in creating sustainable corporate performance. The results of the synthesis show that companies with a structured, transparent, and prevention-oriented risk management system tend to have more stable and efficient performance. The success of effective risk management is greatly influenced by the quality of corporate governance, especially in the aspects of transparency, accountability, and board supervision. Thus, GCG not only functions as an internal control mechanism, but also as a means to strengthen management discipline in the face of business uncertainty.

In addition, interintegrated risk management and GCG have proven to be able to increase investor trust and the company's reputation in the global market. This integration allows companies not only to survive in crisis conditions, but also to adapt to changes in the external environment more quickly and precisely. The practical implications of these findings underscore that companies need to instill a culture of risk and good governance across the organisation's lines in order to be more resilient to the challenges of the modern economy. Therefore, synergy between risk management and GCG should be a strategic priority for organizations that want to build long-term value and ensure business sustainability in the future.

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