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Research Article

Corporate Governance and Risk Management in Improving Company Performance: A Literature Review Study

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Abstract.
This research analyzes the interplay of corporate governance (CG), risk management (RM), and their combined impact on firm performance. As businesses operate in increasingly complex environments, the role of governance and managing risks becomes crucial in ensuring long-term stability and growth. By employing a systematic literature review (SLR) approach, the research investigates relevant journal articles published between 2014 and 2024. The data were sourced from Scopus and Web of Science, using a structured search strategy according to the block-building method to classify search terms. A total of 572 articles were initially selected, and after further screening, 13 key studies were reviewed in-depth. The findings reveal a growing academic focus on the significance of CG and RM in enhancing firm performance. Specifically, the research highlights that companies with strong governance frameworks and effective RM strategies tend to perform better, both in financial terms and sustainability metrics. Moreover, the study identifies certain gaps in existing literature, particularly regarding the integration of sustainability practices and information technology (IT) into RM frameworks. These gaps suggest potential directions for future research to explore more comprehensive approaches in CG and RM, especially in the context of rapidly evolving global business environments. The study underscores the importance of continuous improvement in these areas to drive firm success and resilience.

Keywords: risk management, corporate governance, systematic literature review, VOSviewer, trend research

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1. Introduction

Management of risks and corporate governance two critical components that work together to ensure a company's long-term viability and success. Risk management is critical in guaranteeing any potential hazards or risks affecting the company's operations and goal achievement are successfully managed. Companies can reduce the effects of these risks by recognising, analysing, and controlling them, allowing for more cautious commercial operations. This also allows organisations to be more strategic in seizing opportunities without incurring unnecessary risks [1,2].

Corporate governance, on the opposing hand, establishes an agreement within which the company can operate in a transparent, accountable, and well-structured manner. CG governs the interactions of executives, the board of directors, shareholders, and other interested parties. It guarantees that each strategic choice is consistent with the company's long-term objectives. Good corporate governance also guarantees that adequate monitoring and response systems are in position to analyze and address risks that may impede the company's objective performance [2].

The integration of competent RM and CG is critical for businesses because it not exclusively protects them from eventual damages but additionally improves their ability to grab opportunities intelligently. Having risk management incorporated into the governance structure, businesses may strike a balance among taking measured risks and preserving stability and regulatory compliance. Ultimately, this builds trust between stakeholders, includes investors and regulators, and assures long-term growth [1,2].

The integration of risk management is a fundamental aspect of Good Corporate Governance (GCG) practices. Effective risk management is critical for data-driven decision-making and enhancing management systems by considering both internal and external organizational factors, including human behavior and cultural aspects [3]. Five key principles commonly followed by business entities under GCG are Transparency, Accountability, Responsibility, Independence, and Fairness (often referred to as TARIF) [2]. In Indonesia, GCG has become a significant public issue, with positive responses from the government, State-Owned Enterprises (SOEs), private companies, and publicly listed firms towards the adoption of GCG initiatives [4].

According to the Asian Corporate Governance Association (ACGA) in 2023, Indonesia's score for government and public governance rose by one percentage point to 32%, placing it in 10th position alongside China and slightly ahead of the Philippines, which ranked lowest in the survey. This small increase reflects the limited progress in the government's approach to corporate and public governance, which has stagnated amidst ongoing political turmoil and corruption. Indonesia's capital markets remain a low priority on the political agenda, overshadowed by other pressing national concerns [5].

The study of risk management and corporate governance is crucial as both have an important role in supporting a company's sustainability, growth, and achievement of its objectives. This research aims to find out and conduct a deeper exploration regarding the relationship between GCG and risk management more deeply. Given the limited literature in this area, this study can provide valuable knowledge and insight into the role of governance in managing risks, which is assessed through a composite governance rating [6,7]. By synthesizing current research, this review hopes to highlight important trends, identify gaps in the literature, and suggest future study options. Given the research objectives, the following questions emerge:

Q1: How has research into Corporate Governance & Risk Management grown over the last decade?

Q2: What knowledge gaps do you see in the present literature on Corporate Governance & Risk Management?

Q3: How the model of Corporate Governance & Risk Management increasing Firm Performance?

2. Literature Review

2.1. Corporate Governance

The Corporate governance is the framework by the enterprises operate and governed [8]. In accordance to the [2], corporate governance refers to a collection of policies and processes used to administer and oversee an organisation. [9] argue that the primary purpose of efficient governance is protecting shareholders and other stakeholders towards excessive executive discretion. Corporate governance is critical for supporting value creation inside a corporation and necessitates the establishment of governance systems. As [10] points out, differentiating owning from management is critical for maximising a business's value, necessitating the adoption of excellent governance practices. Corporate governance indicators include:

a. Board size is the number of board members in company's board and is a frequently studied variable in corporate governance research due to its potential impact on the effectiveness of board oversight [11]. It is can be calculated by counting the total numbers of members on the board of directors [12].

b. Board independence refers to individuals who have no ties to the company and are able to make objective decisions, especially when conflicts arise between management and shareholders [13,14]. According to [12], this indicator is calculated using the formula:

   Bind = Independent members / Total number of board members.

c. Audit committees are responsible for gathering and assessing internal data, maintaining reliable and clear financial disclosure, and managing information dissemination to stakeholders to ensure fair and honest presentation [15,16]. This indicator is measured using a dummy variable that indicates the presence or absence of an audit committee [12].

d. Board diversity includes a variety of factors such as skills, gender, age, ethnicity, educational background, financial knowledge, and various board expertise. [17]. The measurement of this indicator is calculated using the formula:

   Bdvrsty = Number of women on the board / Total board size [18].

e. Ownership concentration is who holds control over the major shareholdings, including individuals, families, or institutions. This metric is assessed based on the total percentage (%) of ownership held by the three largest shareholders [18].

f. Managerial ownership is the percentage of the stock of a business owned by its management and executives. When managers own a significant portion of shares, they are more likely to make decisions that improve company performance and increase shareholder value [19]. According to [20], this indicator is calculated using the formula:

MO = Shares owned by directors / Total outstanding shares.

2.2. Risk Management

Risk management is an approach or methodology to solve problems that may arise in the future through several assessments and approaches such as risk assessment, developing strategies to manage it, and risk mitigation using existing resources [21]. Essentially, risk management provides a systematic and structured approach to addressing potential problems that may arise in the company in the future [22]. [23] stated that the concept of risk management is a company's reaction to market risks that cannot controlled by management in order to stabilize the company's income. This variable is measured using the formula:

Mrisk = ROA + capital asset ratio / Standard deviation of ROA (Source: [20])

2.3. Performance

As per the MSMEs Company performance is the outcome of achieving both the internal and external objectives of the company [24]. In other words, corporate performance shows how consistent the company is in achieving the goals and targets that have beet set. Some companies tend to rely more on financial indicators to assess their performance [25]. Performance measurement involves assessing the satisfaction of various stakeholders. [27] note that the concept of how company performance is measured can be broadly applied across different types of firms, allowing the identification of differences between high and low performance from each stakeholder's perspective. The indicators within this variable include:

a. The Return on Assets (ROA) ratio assesses a company's efficiency in generating profits from its assets [28]. The ROA can be determined with a formula that looks like this:

   ROA = Net Income / Total Assets [29]

b. Return on Equity (ROE) is a ratio measurement that calculates the profit that can be returned to shareholders [28]. The ROE can be determined with a formula that looks like this:

   ROE = Net Income / Shareholders' Equity [29]

c. Net Profit Margin (NPM) is a ratio measurement that calculates how efficient the company is in generating net profit from each company's income [28]. The formula for this indicator is:

   NPM = Net Income / Total Revenue × 100% [29]

d. Earnings per Share (EPS) is a measure of net income per share owned by the company's shareholders [28]. This indicator is measured using the formula:

   EPS = Net Income / Number of Outstanding Shares [29]

e. Tobin's Q is a ratio used by companies to calculate and assess whether a company's market price is equal with market worth of their overall assets. A Q value more than one implies that the company's market price surpasses the value of its assets, whilst a Q value less than one shows that the company's market price is lower than the value of its property.

   Tobin's Q = Market Value of Equity + Book Value of Debt / Book Value of Total Assets

Source: [29]

f. Stock Price is the value assigned to a single share of a company traded on the stock market. Stock prices are used by investors to buy or sell shares, as well as to calculate a company's market capitalization. The formula for stock price is:

P = E X (P/E) [29]

3. Material and Methods

The systematic literature review (SLR) used qualitative approach, selecting publications and papers based on [30] and [31] analytical frameworks (Figure 1). A systematic review of literature (SLR) is a method employed to evaluate and identify all appropriate or relevant literature on a topic, with the purpose of making recommendations about the study issue at hand. As [32] state, "Systematic reviews are carried out to clarify the present situation of study and the consequences that can be drawn from it." Articles on Corporate Governance and Risk Management released during 2014 and early 2024 were collected from Scopus and Web of Science, which were selected for their presence of highly regarded scientific papers. Following identifying literature repositories along with additional research sources, the keyword terms are established. To do this, the research topic or questions are divided into groups of terms with equal importance, a strategy known as the block-building method [33]. Using these frameworks, a systematic review was conducted through a step-by-step process to identify and synthesize the fragmented literature on Corporate Governance and Risk Management adoption. Data collection followed a consistent protocol across both databases, with search terms such as "Corporate Governance," "Governance," "Good Corporate Governance." "GCG," "Boards", "ESG," "CG," "Risk Management," "Business Risk," "Corporate Risk," "Enterprise Risk Management," "ERM," and "CRM." The top five publishers for this topic, identified through the review, were Elsevier, Emerald, Springer Group, Sage Publications, and MDPI.

During the specified period, approximately 33.691 journals were identified in search terms. However, after a thorough manual elimination process in quality validation step, there are 572 journal that completed the criteria. The process continue to Content Validation step that excluding literature reviews and journals not relevant to the review's focus, a specific number of relevant journals were selected. This systematic literature review using 13 previous journals. These journals were then used for the comprehensive

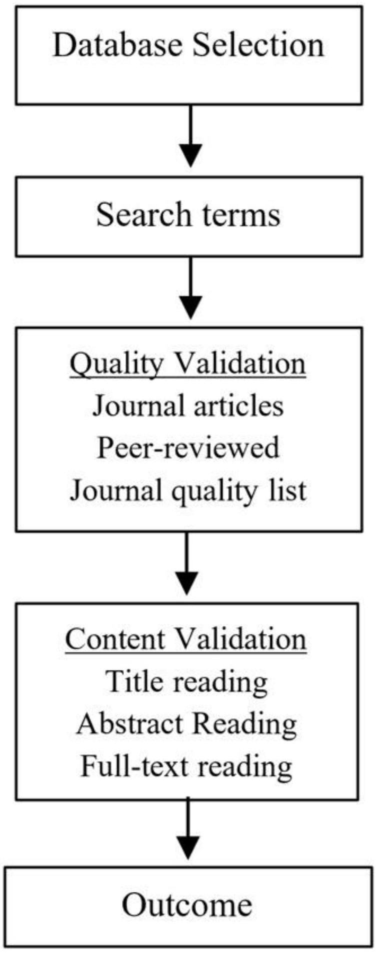

Figure 1: Flowchart SLR Guidelines.

literature review, ensuring that the review was based on the most pertinent and high-quality sources available.

4. Results and Discussion

4.1. Corporate Governance and Risk Management Grown Over The Last Decade

The graphic displays a steady increase in the growth of publications related to CG and RM over the last decade, starting with 35 publications in 2014 and peaking at 83 in 2024. After a notable dip in 2018 with only 39 publications, there was a significant recovery in 2019, reaching 60 (Figure 2). Although there was a slight decline in 2020 (50) and 2021 (44), the trend has since reversed, with consistent growth from 2022 onwards. This upward trend indicates a growing academic and practical interest in these fields, likely driven by evolving global corporate regulations, rising awareness of risk factors, and

Figure 2: Number of Publication by Year.

the increasing integration of governance with risk management practices in response to contemporary challenges.

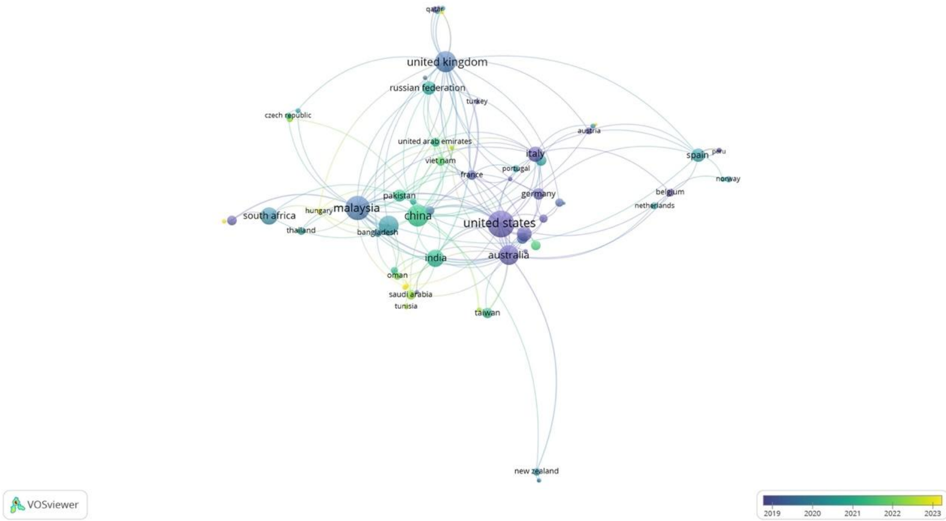

Figure 3: The network visualization map.

The network visualization map highlights the international collaborations in research on Corporate Governance and Risk Management, with nodes representing countries and links illustrating co-authorship or joint research efforts (Figure 3). The United States appears as a central hub with the most connections, indicating its significant role in driving global research in this field. Countries like the United Kingdom, China, Australia, and India are also prominent, engaging in multiple collaborations across continents. European countries such as Germany, Italy, and Spain, along with Asian nations including Malaysia and Pakistan, show notable activity. The varying node sizes suggest differences in research output, while the color gradient reflects the timeline of collaborations, with darker shades indicating more recent research connections (from 2019 to 2023).

This map emphasizes the growing global interconnectedness in addressing CG and risk management challenges.

4.2. Gap interest in Corporate Governance and Risk Management

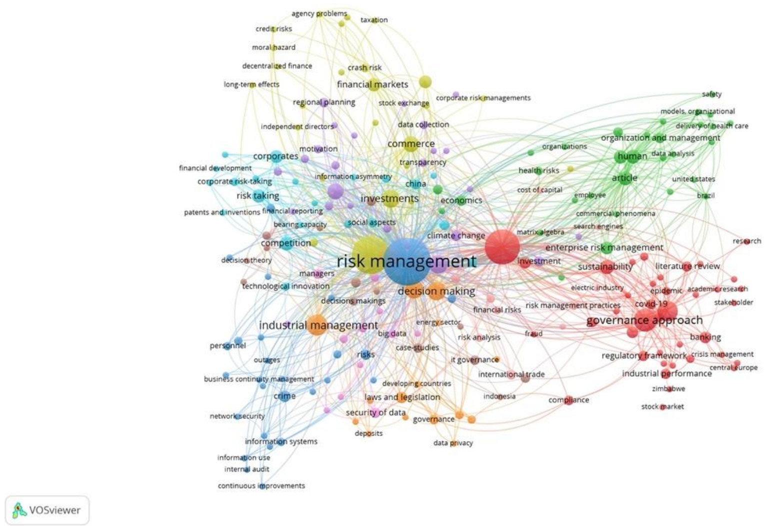

Figure 4: Network visualization for Gap interest in Corporate Governance and Risk Management.

This network visualization shows there is a dense clustering around "risk management" and "governance approach," indicating these areas get significant attention in the literature (Figure 4). However, certain regions of the map suggest potential knowledge gaps. For instance, topics related to "sustainability," "enterprise risk management," and "climate change" appear more fragmented, which may suggest less integrated research or fewer studies examining how corporate governance structures respond to environmental risks or long-term sustainability challenges. Additionally, while "decision making" and "industrial management" show strong connectivity, aspects like "information systems" and "security of data" seem more peripheral, indicating potential gaps in integrating IT governance with corporate governance and risk management strategies. Overall, further exploration could focus on bridging these gaps, particularly in how digital innovation and sustainability intersect with governance practices.

4.3. Model of Corporate Governance & Risk Management on Performance

Excellent corporate governance encourages openness, accountability, and ethical decision-making, which fosters trust between stakeholders (Figure 5). Effective risk management involves identifying, assessing, and mitigating potential risks to ensure a company's resilience in challenging situations.

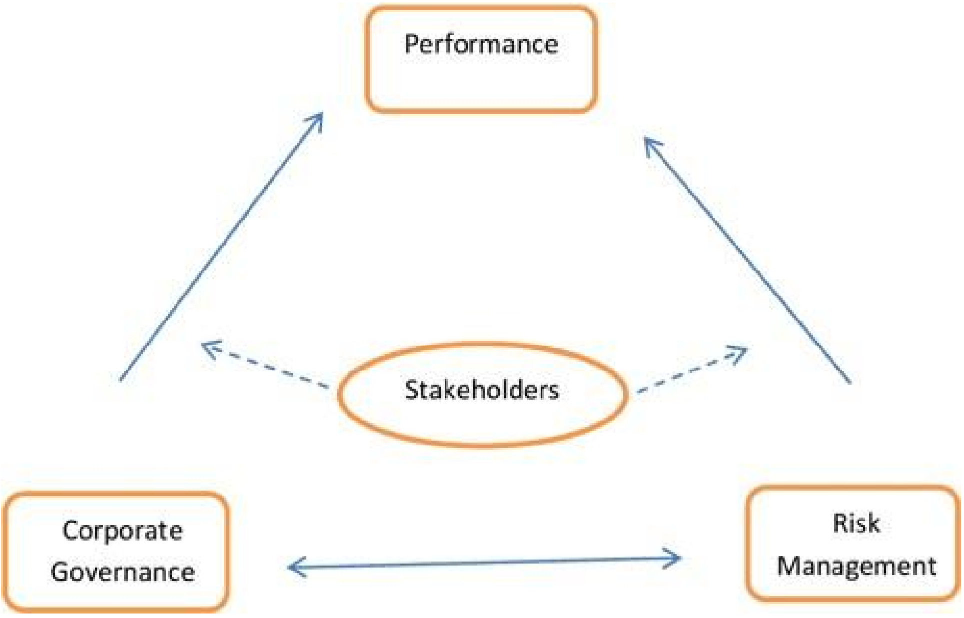

Figure 5: Model of Corporate Governance & Risk Management on Performance (Source : [34]).

The approach emphasises the linked nature of CG, RM, stakeholders, and business performance. Governance & risk management are both directly related to a business's performance. Excellent governance encourages openness, accountability, and ethical decision-making, whereas excellent risk management helps the organisation anticipate and reduce risks. The concept emphasises the importance of aligning the needs of stakeholders with governance and risk management techniques. Successfully addressing concerns from stakeholders leads to improved performance in general, with satisfaction among stakeholders being a key driver. Corporate governance provides an extensive structure for ensuring transparent and efficient risk management, concerns to shareholder issues while protecting stakeholder interests [20]. Furthermore, corporate governance is critical for protecting the interests of shareholders while also promoting the organization's long-term growth and sustainability [35].

Enterprise Risk Management (ERM) aims to reduce expenses, manage risks, and increase revenues to enhance company value [36]. Corporate governance establishes connections between stakeholders, including management, the board, shareholders, employees, customers, and investors, and guides the company's goals along with achievement observing [37,38].

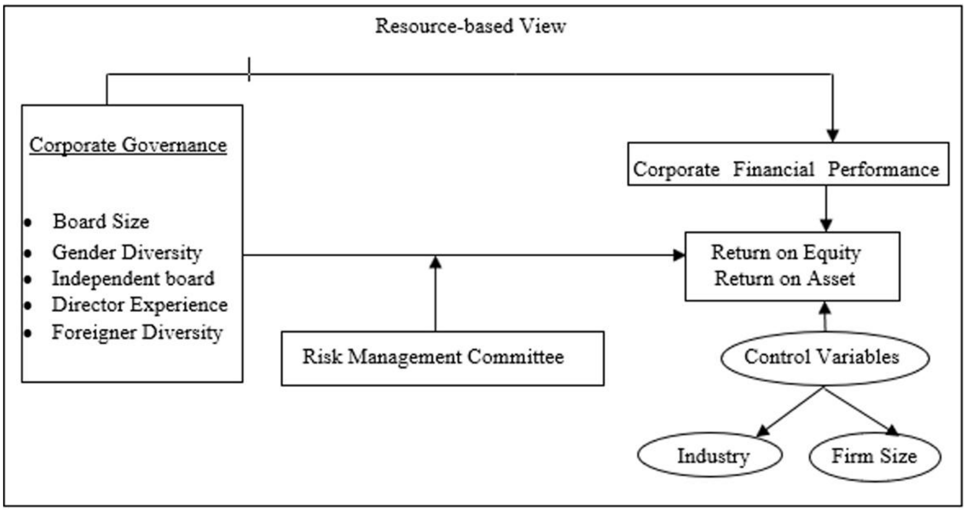

Figure 6: Resource-based View.

Figure 6 presents a framework of thought founded on the Resource-Based View (RBV) theory, ex- ploring how corporate governance affects financial performance, and the mediator in this conceptual model is risk management. Corporate governance considerations includes board size, gender diversity, independent company representation, board expertise, and international diversification. These aspects impact the efficiency of the risk management committee, affecting measures of financial performance like ROE and ROA. The model additionally includes controlling factors like business sector and company size, which could influence its financial outcomes. This approach emphasises the need of effective governance and risk management in delivering better financial results, which is consistent with RBV emphasises internal resources as an indicator of competitive advantage.

According to [39], firms often overlook the value of varied human resources, including workers from various ethnic and racial groups, as well as women, in making important economic decisions. Leveraging such diversity can help boards make better decisions and improve financial results. Diverse boards can improve stakeholder satisfaction and corporate reputation [40]. [41] claimed that efficiently handling internal assets of a business can create a competitive edge, resulting in greater returns. [42] similarly emphasized that business success depends largely on how leaders utilize internal resources effectively.

5. Recommendation

Researchers in the future might explore how business governance and risk management can address rising concerns including technological advancement, sustainability, and climate change. The convergence of IT governance, data security, and enterprise risk management (ERM) has an understudied subject, especially as enterprises depend on technological advances. There is a void of studies on how corporate governance works systems might handle sustainable development issues, such as environmental and social governance (ESG) factors. Exploring these connections is critical for strengthening governance structures that correspond with global aspirations for sustainable and technological advancement, while also ensuring risk and compliance reduction.

Additionally, studies might analyze the effect of governance and risk management on business performance across sectors, as governance and risk methods might vary depending on industry-specific difficulties. Comparative examinations of corporate governance in developing market and industrialised nations would shed light regarding how contextual variables, including regulatory frameworks and cultural differences, influence governance practices and risk management approaches.

6. Conclusion

To summarise, study on CG and RM has grown significantly over the past decade, driven by developing rules and increased risk consciousness on a worldwide scale. The review finds a growing body of research and international partnerships, as well as specific expertise gaps, notably in fields such as sustainability and the incorporation of technological innovations. Corporate governance and risk management are inextricably related to business success. Accountability frameworks promote disclosure and responsibility, while good risk management assures robustness. The theoretical frameworks examined demonstrate that different governance arrangements, particularly those that include gender and foreign diversity, might enhance financial outcomes by improving decisions and harmonising interests of stakeholders. This growing field emphasizes the critical role of governance in fostering long-term sustainability and success.

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