



Integration of Good Corporate Governance with Risk Management

Wana
Universitas Riau
Email : ys475171@gmail.com

ARTICLE INFO	ABSTRACT
Accepted: Completed by the IJEBA team. Revised: Completed by the IJEBA team. Approved: Completed by the IJEBA team.	This study aims to explore the integrative relationship between Good Corporate Governance (GCG) and risk management to enhance governance effectiveness and organizational operational stability. The research focuses on how GCG principles can strengthen the processes of risk identification, measurement, control, and monitoring, thereby fostering a more comprehensive and sustainable risk management system. A qualitative research method was employed, utilizing an in-depth literature review of scholarly journals, governance guidelines, and international risk management standards. A thematic analysis approach was used to identify conceptual linkages between GCG implementation and the effectiveness of risk management systems. The results indicate that integrating these two concepts positively impacts transparency, strengthens oversight functions, improves the quality of risk reporting, and facilitates more accurate decision-making processes. The findings also underscore the critical roles played by the board of commissioners, the audit committee, and senior management in ensuring that GCG implementation aligns with risk mitigation efforts. Furthermore, the integration of GCG and risk management is shown to enhance organizational competitiveness through risk management practices that are more proactive and responsive to modern business dynamics.
Keywords: <i>Good Corporate Governance, Risk Management, Corporate Governance, Risk Mitigation, Internal Oversight.</i>	

INTRODUCTION

Developments in the global business environment over the past two decades have revealed significant changes across technological, regulatory, and market dynamics. Rapid digital transformation is reshaping how organizations operate, interact with customers, and manage data. Simultaneously, global economic uncertainty, geopolitical shifts, and environmental challenges compel companies to respond to risks with greater speed and precision. These changes necessitate robust and adaptive corporate governance systems capable of anticipating potential threats to business sustainability.

Good Corporate Governance (GCG) serves as a key element in building credible and competitive companies. GCG prioritizes the principles of transparency, accountability, responsibility, independence, and fairness as the

foundation of organizational operations. Without effective GCG implementation, companies remain vulnerable to conflicts of interest, management misconduct, and diminished stakeholder trust. Strong GCG implementation has been proven to enhance decision-making quality, strengthen oversight structures, and foster an organizational culture rooted in integrity and professionalism.

On the other hand, business risks are becoming increasingly complex and can arise from various sources. Operational, strategic, financial, and reputational risks can threaten a company's continuity if not managed systematically. Risk management serves as a vital instrument for identifying, assessing, monitoring, and controlling these potential risks. However, many organizations still view risk management merely as a matter of administrative compliance rather than as a strategic tool to enhance competitiveness. This often results in a gap between the existence of risk management documentation and its actual implementation in the field.

Integrating Good Corporate Governance (GCG) with risk management has become an urgent necessity in the face of global challenges. These two concepts do not operate in isolation; rather, they reinforce one another. GCG provides a governance framework that ensures risk management is executed consistently, while risk management supports the implementation of GCG through more structured oversight and risk mitigation. This integration fosters an organization that is more responsive, better prepared to handle uncertainty, and more capable of maintaining long-term stability.

Furthermore, various instances of major corporate failures—both domestically and internationally—demonstrate that ineffective risk oversight and weak governance are primary causes of organizational collapse. Issues such as financial statement fraud, abuse of authority, inadequate board oversight, and the absence of a risk culture highlight the critical importance of integrating Good Corporate Governance (GCG) and risk management to prevent internal crises. Modern business regulations increasingly emphasize these two aspects as fundamental requirements for building a healthy company.

The urgency of research into the integration of GCG and risk management is further underscored by rising stakeholder expectations regarding corporate transparency and sustainability. Investors, regulators, and the public demand that companies not only pursue profits but also manage risks responsibly. Consequently, this integration is not merely a technical necessity but a vital component of a company's commitment to sustainable governance.

Taking these various dynamics into account, this study aims to analyze the relationship between the implementation of Good Corporate Governance (GCG) and the effectiveness of risk management, as well as how their integration can enhance organizational resilience and performance. The study is expected to make both theoretical and practical contributions to the development of modern governance concepts and serve as a reference for companies in designing more comprehensive strategies to strengthen governance and risk management.

LITERATURE REVIEW

A. Teori Good Corporate Governance (GCG)

1. Definition of Good Corporate Governance (GCG)

Good Corporate Governance (GCG) is a corporate governance concept aimed at establishing a sound, transparent, and responsible management system. The theoretical roots of GCG lie in agency theory, which explains the existence of a conflict of interest between managers (agents) and owners (principals). To minimize such conflicts, governance mechanisms are required to control management behavior through oversight and transparency.

Furthermore, stakeholder theory broadens the paradigm by positing that a company is accountable not only to shareholders but also to all stakeholders, including employees, the community, and regulators. This theory asserts that companies managed according to principles of fairness, accountability, and responsibility foster harmonious relationships and support business sustainability. GCG is also linked to resource dependence theory, which emphasizes the role of the board of commissioners in providing the resources and information necessary for organizational management.

In practice, GCG principles encompass five key aspects: transparency, accountability, responsibility, independence, and fairness. These five principles serve as a framework for companies to ensure that all business processes and decisions are conducted openly and accountably, while remaining aligned with regulations and ethical standards.

Theoretical Basis of GCG

a. Agency Theory

Agency theory focuses on the relationship between company owners (principals) and management (agents). Under this theory, management tends to possess more information than owners and may make decisions that benefit themselves rather than the company; this issue is known as the agency problem. To mitigate this risk, Good Corporate Governance (GCG) provides oversight mechanisms such as independent boards of commissioners, internal audits, and transparent reporting systems. Effective oversight minimizes agency costs, thereby protecting the interests of both shareholders and the organization.

b. Stakeholder Theory

Stakeholder theory emphasizes that companies bear responsibility not only to shareholders but also to other stakeholders, such as employees, customers, the community, and regulators. This theory highlights the importance of fairness and social responsibility in corporate decision-making. By balancing the interests of all stakeholders, companies can enhance their reputation, stakeholder loyalty, and long-term sustainability.

c. Stewardship Theory

In contrast to agency theory, which views managers as parties requiring oversight, stewardship theory regards them as stewards acting in the company's best interests. This theory assumes that managers are motivated to achieve organizational goals by intrinsic values such as responsibility, prestige, and professional recognition. In this context, Good

Corporate Governance (GCG) reinforces the manager's role as a steward through transparency and accountability, ensuring that decisions align with the company's long-term interests.

d. Resource Dependence Theory

This theory emphasizes the role of the board of commissioners and management in providing the resources an organization needs to survive and thrive. These resources can range from strategic information, business networks, and organizational legitimacy to market access. A robust governance structure enables a company to effectively leverage external resources, reduce dependency, and enhance competitiveness.

e. Institutional Theory

Institutional theory explains that the implementation of Good Corporate Governance (GCG) is influenced by external pressures such as government regulations, international standards, industry norms, and public expectations. Companies implement GCG to gain social legitimacy and enhance public trust. This theory demonstrates that GCG is not merely an internal decision but also a response to external environmental demands.

2. GCG Principles

f. Transparency

Transparency refers to the openness of information, enabling stakeholders to understand and evaluate the company's performance. Examples include clear financial reports, risk disclosures, and open communication with investors. Transparency helps build trust and minimizes misinformation.

b. Accountability

Akuntabilitas berarti setiap organ perusahaan memiliki tanggung jawab yang jelas dan dapat dipertanggungjawabkan atas keputusan dan tindakan mereka. Direksi bertanggung jawab atas operasional, sedangkan dewan komisaris bertanggung jawab atas pengawasan. Akuntabilitas memastikan setiap tindakan perusahaan dapat diaudit dan dinilai secara objektif.

c. Responsibility

Responsibility entails that a company must comply with laws and regulations while considering social and environmental impacts. This encompasses fiscal compliance, environmental protection, and corporate social responsibility. Responsibility establishes corporate legitimacy in the eyes of the public.

d. Independence

Independence means that corporate decision-making is conducted free from pressure by specific parties, whether internal or external. An example is the presence of independent commissioners on the board, who can provide objective assessments without conflicts of interest.

e. Fairness (Keadilan)

Fairness means that a company treats all stakeholders fairly and equitably. This encompasses fair compensation for employees, equal treatment of minority investors, and non-discriminatory policies toward third parties. Fairness enhances reputation and trust.

B. Previous Research

Previous research indicates that the implementation of Good Corporate Governance (GCG) significantly influences the effectiveness of risk management within companies. Beasley, Clune, and Hermanson (2019) found that companies possessing independent boards of commissioners, effective audit committees, and transparent information disclosure tend to be better equipped to identify and manage risks optimally. Furthermore, research by Tjahjono (2021) confirms that companies consistently applying GCG principles possess more mature and systematic risk management structures, thereby minimizing operational risks. Other studies highlight the importance of integrating Enterprise Risk Management (ERM) with corporate governance. COSO (2017) emphasizes that ERM conducted within a GCG framework enhances the alignment between business strategy and risk management, making organizations more adaptable to environmental changes. A study of the banking sector by the Basel Committee on Banking Supervision (2015) also demonstrates that banks integrating GCG with risk management exhibit superior financial stability and a lower risk of failure compared to those that do not implement such integration.

Despite the substantial research supporting the positive impact of integrating GCG and risk management, obstacles to implementation remain. Solihin (2018) identifies low top-management commitment and an organizational culture that does not yet support risk-based decision-making as primary barriers. Research in the non-financial sector indicates that firm size and operational complexity influence the effectiveness of this integration, with smaller companies tending to be slower in adopting comprehensive systems. Cross-sector comparisons also reveal significant differences: the financial sector—particularly banking and insurance—tends to be more mature in implementing this integration due to stringent regulatory pressures, whereas the non-financial sector displays greater implementation variance resulting from differences in complexity and corporate culture. Overall, prior research confirms that the integration of GCG and risk management plays a crucial role in enhancing risk management effectiveness and corporate sustainability, even though implementation continues to face practical challenges that vary across sectors and organizational sizes.

Although research indicates that integrating Good Corporate Governance (GCG) with risk management enhances the effectiveness of risk handling, implementation in practice often remains a mere formality, lacking the support of a strong organizational culture. The financial sector—particularly banking—tends to be more mature due to stringent regulations, whereas the non-financial sector varies significantly based on company size, complexity, and management's understanding of risk. Other obstacles include a lack of top management commitment and a historical research focus on financial risks, which has often led to the neglect of strategic and non-financial risks.

The integration of GCG and risk management is currently evolving alongside growing attention toward ESG (Environmental, Social, and Governance) factors, the digitalization of GRC (Governance, Risk, and Compliance), and risk culture. Boards of commissioners are playing a more active role in overseeing strategic risks, while global regulations increasingly emphasize transparency and the harmonization of standards. The use of technology and the cultivation of a risk-

aware culture assist companies in navigating market uncertainty and enhancing long-term sustainability.

METHOD

1. Research Approach

This study employs a qualitative approach using a comprehensive literature review method. This approach was selected to examine and synthesize empirical and theoretical findings regarding the integration of Good Corporate Governance (GCG) and risk management based on prior research.

2. Sumber Data

The research data sources consist of scientific journal articles published within the last five years (2021–2025) and indexed in:

- a. Sinta (Science and Technology Index)
- b. Scopus
- c. Google Scholar

The article selection criteria are:

- 1) Relevance to the topics of GCG and risk management.
- 2) Publication in a nationally or internationally reputable journal.
- 3) Availability of the full text for analysis.

3. Teknik Pengumpulan Data

Data were collected through:

- a. Literature searches using keywords such as “Good Corporate Governance AND risk management”, “corporate governance integration AND risk”, and “enterprise risk management AND GCG”.
- b. Selection of articles based on title, abstract, and topical relevance.
- c. Downloading full-text versions for in-depth analysis.

4. Teknik Analisis Data

The analysis was conducted systematically through the following stages:

- a. Identification of the main themes of each article (e.g., GCG principles, risk management effectiveness, obstacles, integration strategies).
- b. Data reduction and categorization to simplify and group the findings.
- c. Synthesis of findings to summarize patterns, similarities, differences, and research gaps.
- d. Critical analysis and cross-study comparison to evaluate result consistency, best practices, and areas requiring further research.

RESULTS AND DISCUSSION

Research Findings

a. Impact of GCG on risk management effectiveness

Research indicates that the application of GCG principles—transparency, accountability, responsibility, independence, and fairness—positively influences the effectiveness of risk management. Companies with independent boards of commissioners, active audit committees, and

transparent reporting systems tend to be more effective in identifying, assessing, and managing operational, strategic, and reputational risks.

b. Cross-sector variations

The financial sector—particularly banking and insurance—demonstrates a higher level of integration between GCG and risk management due to stringent regulatory pressures. In contrast, the non-financial sector exhibits greater variation, influenced by factors such as company size, operational complexity, and organizational culture.

c. Implementation barriers

Although many companies have established formal governance structures, some studies suggest that GCG implementation often remains merely symbolic. Key obstacles include a lack of top management commitment, a weak risk culture, and a tendency in prior research to focus heavily on financial risks while often overlooking strategic and non-financial risks.

d. Recent trends

Modern trends in the literature highlight the integration of GCG with ESG (Environmental, Social, and Governance) frameworks, the adoption of GRC (Governance, Risk, and Compliance) technologies, and the development of organizational risk cultures. These developments enhance risk awareness across all management levels and strengthen the long-term sustainability of companies.

Discussion

Literature review findings indicate that integrating Good Corporate Governance (GCG) with risk management plays a crucial role in enhancing the effectiveness of risk management and corporate sustainability. The application of GCG principles—such as transparency, accountability, responsibility, independence, and fairness—serves as a pillar of internal control, enabling companies to systematically identify, assess, and mitigate risks. Transparency ensures that relevant information is available to stakeholders, allowing for timely risk monitoring, while accountability compels management to take responsibility for decisions that could potentially give rise to risks. Furthermore, the independence of the board of commissioners and the audit committee strengthens oversight, ensuring that strategic corporate decisions are more objective and less prone to conflicts of interest.

Cross-sector comparisons reveal that the financial sector—particularly banking and insurance—tends to be more mature in integrating GCG and risk management. This is driven by stricter regulatory pressures and the requirement to comply with international standards such as Basel III and COSO ERM. In contrast, the non-financial sector exhibits more varied levels of implementation, influenced by factors such as company size, operational complexity, and organizational culture. These findings underscore that a formal GCG structure alone is insufficient; successful integration is also heavily influenced by the organization's internal and external factors.

Although Good Corporate Governance (GCG) structures have been established, literature indicates that their implementation is often merely symbolic. Key obstacles include a lack of commitment from top management, an

organizational culture that does not yet support risk-based decision-making, and a limited focus on non-financial risks—such as reputational and environmental risks. Therefore, embedding GCG principles into the organizational culture (fostering a risk-aware culture) is crucial for successful integration with risk management.

Recent trends show a shift in focus from traditional financial risks to non-financial risks and the integration of ESG (Environmental, Social, and Governance) factors. The use of Governance, Risk, and Compliance (GRC) technology enables companies to conduct real-time risk monitoring, perform more accurate data analysis, and provide transparent reporting to stakeholders. Furthermore, the involvement of the board of commissioners and top management in defining risk appetite and strategic risk mitigation strategies is being increasingly strengthened.

Overall, the integration of GCG and risk management not only enhances the effectiveness of risk management but also strengthens corporate sustainability. Companies that successfully implement this integration are able to reduce the risk of operational failure, improve their reputation, and create long-term value for all stakeholders. This underscores the fact that integrating GCG and risk management is a crucial strategy in modern corporate governance.

CONCLUSIONS

Based on a review of the literature and an analysis of prior research, it can be concluded that integrating Good Corporate Governance (GCG) with risk management plays a strategic role in enhancing the effectiveness of risk management and corporate sustainability. The application of GCG principles—transparency, accountability, responsibility, independence, and fairness—assists companies in systematically identifying, assessing, and mitigating both financial and non-financial risks.

Cross-sector comparisons reveal that the financial sector—particularly banking and insurance—exhibits higher levels of integration due to stringent regulations, whereas the non-financial sector shows variations influenced by company size, operational complexity, and organizational culture. Key obstacles to integrating GCG and risk management include a lack of commitment from top management, an organizational culture that does not yet foster risk awareness, and a prevailing focus on financial risks over strategic or non-financial risks.

Current trends highlight the importance of cultivating a risk-aware culture, integrating ESG (Environmental, Social, and Governance) factors, and leveraging Governance, Risk, and Compliance (GRC) technologies to strengthen risk management. With consistent implementation and support from organizational culture and technology, the integration of GCG and risk management can sustainably enhance a company's stability, reputation, and value creation.

Overall, this study confirms that integrating GCG and risk management is a vital strategy for modern companies to navigate business uncertainties and ensure long-term sustainability.

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