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## Evaluating the Contribution of Corporate Governance in Formulating Enterprise Risk Management Strategies through a Comparative Sectoral Study

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### Abstract

*Risk management is an imperative part of corporate governance for the purpose of protecting organizational value and maintaining long-run sustainability. This research critically investigates how corporate governance mechanisms affect the effectiveness of enterprise risk management (ERM) in various industrial sectors such as Banking, Manufacturing, and FMCG. Adopting a quantitative comparative research design, secondary financial data and governance information of 30 companies were examined by applying descriptive statistics, regression, and correlation techniques. Findings indicate that strong governance habits-defined as bigger boards with a greater percentage of independent directors-are strongly linked to better risk management performance, indicated through lower financial risk metrics like debt-equity ratios. Expert input and prior research are also included in the study, which suggests the importance of risk-conscious, diversified boards to manage complicated and changing risk environments. These findings highlight the urgency to integrate risk management into corporate governance structures in order to promote organizational resilience, transparency, and stakeholder trust in a rapidly evolving global economy.*

### Keywords

Risk Management, Corporate Governance, Enterprise Risk Management (ERM), Board Size, Independent Directors, Financial Risk, Debt-Equity Ratio, Organizational Resilience, Corporate Governance Mechanisms, Industry Comparison.

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## **Evaluating the Contribution of Corporate Governance in Formulating Enterprise Risk Management Strategies through a Comparative Sectoral Study**

### **1. Introduction**

Risk management is a vital duty that ought to receive the most serious attention of an organization's board of directors to strengthen corporate governance. Albeit vital, risk oversight has in the past been overlooked, leading to some of the worst corporate failures. A case in point is the 2008 financial crisis caused by the bankruptcy of Lehman Brothers. The risk management committee of the company convened just twice prior to its collapse and consisted of people who did not possess relevant expertise in sophisticated financial instruments such as credit default swaps and mortgage-backed securities (Grove & Patelli, 2013). This lack of governance experience was not unique; other giant institutions like American International Group (AIG) were also criticized for boards that were out of touch with risks associated with their business. This deficiency of risk management expertise in the boardroom spurred regulatory changes, such as the Dodd-Frank Act of 2010, which requires publicly traded firms to have risk management-proficient board members to enhance enterprise risk governance (Walker *et al.*, 2015).

Risk management is an essential function in organizations, and it identifies, evaluates, and reduces threats that may jeopardize strategic goals and business continuity. Risk management does not exist in a vacuum. It depends strongly on a strong corporate governance structure that creates clear structures, processes, and accountability mechanisms (Settembre-Blundo *et al.*, 2021). Corporate governance refers to the systems and principles that guide and regulate organizations, reconciling the interests of shareholders, management, employees, customers, and other groups. Ensuring transparency, ethical behavior, and good decision-making, governance structures provide the basis upon which effective risk oversight can be established. Without such a governance foundation,

risk management activities become disjointed and inadequate to address more complex and interrelated risks (Kumar & Sable, 2022).

Embedding risk management in corporate governance practices is vital for developing a risk-conscious culture and sense of responsibility across the organization (Mutsvene & Klingelhöfer, 2023). Boards of directors have a key role in establishing the tone by articulating risk appetite, assessing risk policies, and making adequate resources available to mitigate risks. This regulatory oversight also entails putting in place internal controls—such as segregation of duties and audits—that aid in the detection and prevention of probable failures prior to their amplification. In addition, involving stakeholders such as shareholders, employees, and customers in risk conversations adds depth to the organization's risk exposures and ties risk responses to stakeholder expectations. Such an integrated approach not only safeguards the firm but also allows it to take advantage of opportunities, thus generating long-term sustainable value (Gangaram, 2020).

In the current dynamic and fast-changing business world, the alignment of risk management with corporate governance is more important than ever before. The changing nature of risks—from sharp financial and operating to reputation and regulatory—means that companies have to be proactive, adaptive, and resilient. By integrating risk management into governance structures, organizations are able to promote accountability at every level, increase transparency, and enhance strategic decision-making. Such an integrated approach also generates trust with stakeholders and protects organizational reputation (Moridu, 2023). Ultimately, good corporate governance combined with effective risk management enhances an organization's resilience to shocks, the ability to take advantage of emerging opportunities, and to secure its long-term performance in a rapidly changing global economy.

## **2. Objective**

The main objective of this article is to critically analyze the impact of corporate governance mechanisms on the development and effectiveness of enterprise risk management strategies in various industrial sectors, through a study of secondary financial and governance information in a bid to determine sector-specific governance practices that promote organizational risk resilience.

### 3. Review of Literature

Ellul (2015) reviews the research on the implications of governance structures and risk management functions on banks' risk-taking and performance, as well as the empirical literature investigating these correlations. A strong risk management function that is in sync with the right business model and culture can help financial institutions reduce their tail risk exposures and maximize their value in the long run, according to recent statistics.

If boards want to improve corporate governance by keeping tabs on key financial metrics and ratios, risk management is a must. Cash flow analysis, debt servicing, and bankruptcy forecasting tools like the Altman model are examples of analytical models that can help identify financial hardship and prevent failures (Grove & Clouse, 2017). The need of competent supervision in protecting organizational value is further underscored by models that detect earnings manipulation.

Specifically, Gitau's 2023 study looked at how flower farms in Kenya handled risk management and how corporate governance played a role. We reject the null hypothesis, which stated that managerial abilities do not substantially impact risk management, because the study found that management skills had a positive and significant effect on risk management.

A hyper-competitive market, multiple financial crises, and a slew of high-profile corporate scandals have all contributed to the rise in importance of corporate social responsibility (CSR). In order to increase their own worth, companies should think about what other people care about. Corporate social responsibility's effect on firm value is the focus of the study by Farooq *et al.*, 2025. In this study, we look at the connection between CSR and business value, specifically at the mediating role of enterprise risk management (ERM) and the moderating effect of corporate governance (CG). Corporate governance (CG) is favorably associated with company success, according to the results, and this link is strengthened when an effective governance framework is in place within the corporation.

### 4. Research Methodology

The research uses a comparative and quantitative study design that seeks to analyze the correlation between risk management outcomes and corporate governance variables across various

industries. The method allows for a detached comparison of finance and governance data to determine key patterns and associations.

#### **4.1 Data Sources**

The study is based on secondary data gathered from openly available resources in the form of annual reports, audit committee reports, and disclosures of corporate governance. More data is obtained from reliable financial databases like Bloomberg, Reuters Eikon, and national stock exchange filings like NSE and BSE, and company websites. The thorough data set provides a strong basis for quantitative analysis.

#### **4.2 Sampling**

A stratified sampling method is employed to identify companies across different sectors like Banking, Manufacturing, and FMCG. The sample includes companies listed on major stock exchanges, providing a comparative analysis factor considering sectoral variations in governance practices and risk profiles.

#### **4.3 Tools and Techniques**

The research makes use of ratio analysis, such as important financial ratios such as Debt-Equity Ratio and Liquidity Ratios, to gauge risk exposure and financial well-being. Additionally, regression analysis is used to examine the association between governance variables-board size and board independence-and risk management results, hence offering empirical proof on how governance arrangements affect company risk.

### **5. Results**

This section reports the findings of the study done in 30 companies from three prominent industries- "Banking, Manufacturing, and FMCG". This study set out to determine whether there was a connection between enterprise risk management outcomes and the most important metrics for corporate governance. Specific metrics such as board size, independent director percentage, debt-equity ratio, current ratio, and return on assets (ROA) were the focus of the research. Analysis of correlation, regression, and descriptive statistics make up the bulk of the results.

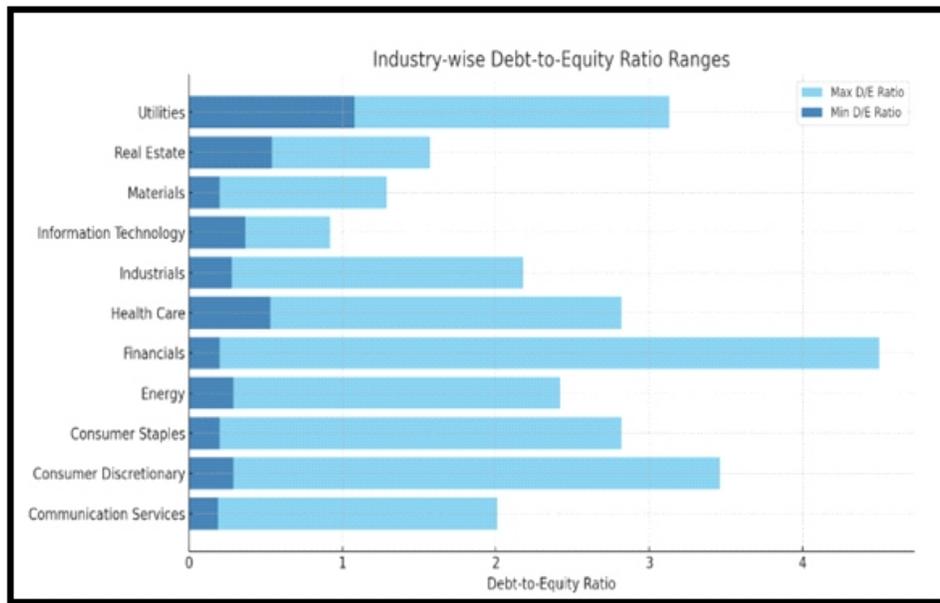
#### **5.1 Descriptive Analysis**

The descriptive analysis gives an overview of the principal variables employed in the study. It provides information on the

overall nature of the sampled firms based on their governance structure and financial risk indicators. This section sets a basis for understanding the distribution and spread of each variable, paving the way for the subsequent statistical analysis.

**Table-1: Descriptive Statistics of Key Variables**

Variable	Mean	Std. Dev.	Min	Max
Board Size	9.5	1.8	6	14
Independent Directors (%)	52.3%	11.2%	30%	70%
Debt-Equity Ratio	1.45	0.92	0.22	3.6
Current Ratio	1.32	0.51	0.68	2.7
Return on Assets (ROA) (%)	8.2%	3.5%	2.1%	15.8%



**Figure-1: Industry-wise Average Debt-Equity Ratio**

Source: <https://eqvista.com/debt-to-equity-ratio-by-industry/>

### 5.2 Regression Analysis

This section reports the findings of the regression analysis that was performed to establish the effect of corporate governance variables-*i.e.*, board size and independent directors as a percentage of total directors-on the debt-equity ratio, as an indicator of financial risk. The test is performed to verify the assumption that better governance is correlated with lower financial risk in companies.

**Table-2: Results of Regression Analysis**

Variable	Coefficient	Std. Error	t-Statistic	p-Value
Constant	2.857	0.436	6.55	0.000
Board Size	-0.089	0.034	-2.62	0.014
Independent Directors (%)	-0.027	0.011	-2.45	0.019
R-squared	0.38			
Adjusted R-squared	0.35			

A negative and significant correlation was noted between both board size and independent director proportion and the debt-equity ratio, suggesting that stronger governance is linked with lower financial risk.

### 5.3 Correlation Analysis

To further clarify the interactions among the variables, a correlation analysis was performed. Through this analysis, the direction and strength of association between financial performance/risk indicators and governance characteristics are identified. The results validate the assertion that well-structured governance underpins better risk management performance.

**Table-3: Correlation Matrix**

Variables	Board Size	Indep. Dir. %	Debt-Equity	Current Ratio	ROA
Board Size	1				
Independent Directors %	0.54	1			
Debt-Equity	-0.31	-0.45	1		
Current Ratio	0.22	0.30	-0.42	1	
ROA	0.35	0.48	-0.33	0.44	1

These results from correlation analysis substantiate the hypothesis that stronger corporate governance structures-particularly larger, more independent boards-lead to better risk management as reflected in lower debt-equity ratios and enhanced liquidity.

To complement the quantitative findings and add a real-world insight, industry views and expert opinions were included. These expert views provide insightful commentary on the contribution of

corporate governance to improving enterprise risk management practices across industries. The views expressed by practitioners and regulators identify actual governance issues and best practices that confirm the empirical evidence in this study:

### **5.3.1 John Crawley on Governance and Risk Alignment**

John Crawley, a global risk management expert, focuses on the fact that good corporate governance structures are vital to managing organizational goals and uncertainties. He underscores the need for boards to establish suitable risk appetites and to have in place risk management systems that enable business objectives to be achieved. "(<https://gccbdi.org/newsletter-articles/exclusive-interview>).

### **5.3.2 Anthony Carey on Board Resilience and Knowledge Gaps**

Anthony Carey, a Mazars UK partner, shares insights on the importance of board-level resilience in managing risk. He observes that although numerous boards believed they were ready for crises such as the COVID-19 pandemic, there is still a requirement to close knowledge gaps, especially in the case of climate change and cyber security threats. Carey encourages the diversification of board expertise and the inclusion of external advisors in order to improve the oversight of risk. (<https://www.forvismazars.com/group/en/insights/latest-insights/expert-interview-leadership-in-risk-management>).

### **5.3.3 Deloitte Experts on Banking Sector Governance**

Irena Gecas-McCarthy and Richard Rosenthal of Deloitte point out the growing focus on corporate governance practices in banking. They emphasize the need for boards to strengthen their governance architecture by enabling agility, unifying strategy with risk management, and encouraging accountability to better deal with regulatory pressures and market complexities. (<https://deloitte.wsj.com/riskandcompliance/banking-what-questions-are-your-boards-asking-management-f330875e>).

### **5.3.4 Ministry of Corporate Affairs (MCA) on Governance and Fraud Prevention**

Indian Ministry of Corporate Affairs highlights the importance of sound corporate governance structures in avoiding fraud and ensuring market confidence. Their report stresses the importance of legal protection and regulatory structures ensuring transparency

and honest business practices within a firm. (<https://economic.times.indiatimes.com/news/company/corporate-trends/corporate-governance-crucial-for-curbing-fraud-says-mca-report-following-gensol-row/articleshow/121219343.cms>).

These professional points of view add weight to the findings of the study that good corporate governance structures with well-informed and diversified boards are an essential part of sound risk management and organizational resilience within different industries.

According to the findings, a lower debt-equity ratio is indicative of good corporate governance, which is defined as a bigger board size and more director independence. Correlation tests also corroborated these findings with positive associations between governance measures and firm performance metrics. Expert opinions further emphasized the critical roles played by board resilience, knowledge diversity, and strategic alignment in effective enterprise risk management. In general, the findings emphasize that strong governance structures make significant contributions to better risk management across sectors.

## **6. Discussion**

The results of this research paint a strong story about the determinative influence of corporate governance on effective enterprise risk management (ERM) strategy in the Banking, Manufacturing, and FMCG industries. The descriptive statistics are indicative of fairly sized boards (mean= 9.5 members) with a decent level of independence (mean independent directors=52.3%). Companies had different financial risk profiles, as evident in the 0.22 to 3.6 debt-equity ratios, and a robust mean return on assets (ROA) of 8.2%, reflecting operating profitability across industries.

The regression analysis indicates a statistically significant negative association between both board size and independent director percentage with the debt-equity ratio ( $p < 0.05$ ). Particularly, the regression slope of board size (-0.089) and independent directors (-0.027) is such that as the board size increases and is more independent, companies engage in less financial risk. This echoes established governance theory that effective board supervision assists in reducing over-leveraging through the imposition of prudential borrowing practices. An R-squared of 0.38 means that

around 38% of the financial risk variation (as captured by debt-equity ratio) is explained by these governance variables, which represents a moderate fit of the model.

These results are supported by the correlation matrix, which indicates negative correlations of debt-equity with board size (-0.31) and independent directors (-0.45), further implying that governance strength has an inverse relation to financial leverage. Further, positive correlations of ROA with board size (0.35), independent directors (0.48), and current ratio (0.44) imply that good governance not only minimizes risk but also maximizes operational performance and liquidity.

These findings are also corroborated by expert opinions. John Crawley highlights the importance of boards having risk management frameworks harmonize with business goals, which aligns with this research's findings correlating board composition with sound capital structuring. Anthony Carey emphasizes the importance of risk-resilient boards with varying competencies in order to handle upcoming threats—a point of especial significance in view of the broad disparity in risk exposure and governance quality across the sample companies. Deloitte's Irena Gecas-McCarthy and Richard Rosenthal amplify the need for joined-up governance in the banking industry, where the risks of inadequate risk management are especially great. Also, the Indian Ministry of Corporate Affairs highlights the linkage between governance and risk in fraud detection and market trust—replicating this research's emphasis on strong safeguards.

Combined, empirical evidence and expert opinion confirm that corporate governance-board structure and independence has a determinative impact on managing financial risk and facilitating responsive, robust ERM practices across industries. Such findings form a useful platform from which to make policy suggestions for strengthening governance structures to improve the effectiveness of risk management.

## **7. Conclusion**

The research irrefutably proves that effective corporate governance structures, specifically higher board sizes and greater ratios of independent directors, substantially improve enterprise risk management competence in various industrial industries. Effective

governance systems foster increased monitoring, accountability, and strategy alignment, which individually lower financial risk as indicated by reduced debt-equity ratios and enhanced liquidity metrics. The incorporation of subject-matter expertise further substantiates that knowledgeable and diversified boards play a significant role in solving emerging risks and promoting organizational resilience. Hence, it is imperative for businesses to incorporate thoroughgoing governance practices into risk management frameworks to ensure the minimizing of threats, taking advantage of opportunities, and achieving sustainable long-term performance within the evolving and multifaceted business landscape.

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