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CORPORATE GOVERNANCE, RISK MANAGEMENT, AND BUSINESS ETHICS ON FIRM PERFORMANCE IN THE MODERN BUSINESS ENVIRONMENT

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Abstrak. Studi ini meneliti dampak tata kelola perusahaan, manajemen risiko, dan etika bisnis terhadap kinerja perusahaan dalam lingkungan bisnis modern. Dengan menggunakan pendekatan penelitian kuantitatif, data dikumpulkan dari perusahaan-perusahaan yang terdaftar di bursa saham dan dianalisis menggunakan teknik regresi berganda. Temuan penelitian menunjukkan bahwa tata kelola perusahaan, manajemen risiko, dan etika bisnis secara signifikan dan positif memengaruhi kinerja perusahaan. Struktur tata kelola yang kuat meningkatkan pengambilan keputusan, transparansi, dan akuntabilitas, yang mengarah pada hasil keuangan yang lebih baik. Strategi manajemen risiko yang efektif membantu perusahaan mengatasi ketidakpastian, mengurangi risiko keuangan dan operasional. Praktik bisnis yang etis berkontribusi pada keberlanjutan jangka panjang dengan menumbuhkan kepercayaan pemangku kepentingan dan reputasi perusahaan. Hasil ini mendukung pandangan berbasis sumber daya dan teori pemangku kepentingan, yang menekankan pentingnya tata kelola, manajemen risiko, dan perilaku etis secara strategis dalam mencapai keunggulan kompetitif. Studi ini memberikan implikasi teoritis dan praktis bagi bisnis, pembuat kebijakan, dan investor, yang menyoroti perlunya kerangka tata kelola yang kuat, manajemen risiko proaktif, dan etika perusahaan dalam meningkatkan kinerja perusahaan. Penelitian di masa mendatang harus mengeksplorasi efek khusus industri dan menggabungkan analisis longitudinal untuk menilai dampak jangka panjang dari faktor-faktor ini terhadap keberhasilan bisnis.

Kata Kunci: Tata Kelola Perusahaan, Manajemen Risiko, Etika Bisnis, Kinerja Perusahaan, Teori Pemangku Kepentingan, Pandangan Berbasis Sumber Daya, Keberlanjutan Perusahaan, Kinerja Keuangan.

Abstract This study examines the impact of corporate governance, risk management, and business ethics on firm performance in the modern business environment. Using a quantitative research approach, data were collected from publicly listed firms and analyzed using multiple regression techniques. The findings indicate that corporate governance, risk management, and business ethics significantly and positively influence firm performance. Strong governance structures enhance decision-making, transparency, and accountability, leading to improved financial outcomes. Effective risk management strategies help firms navigate uncertainties, reducing financial and operational risks. Ethical business practices contribute to long-term sustainability by fostering stakeholder trust and corporate reputation. These results support the resource-based view and stakeholder theory, emphasizing the strategic importance of governance, risk management, and ethical conduct in achieving competitive advantage. The study provides theoretical and practical implications for businesses, policymakers, and investors, highlighting the necessity of robust governance frameworks, proactive risk management, and corporate ethics in enhancing firm performance. Future research should explore industry-specific effects and incorporate longitudinal analyses to assess the long-term impact of these factors on business success.

Keywords: Corporate Governance, Risk Management, Business Ethics, Firm Performance, Stakeholder Theory, Resource-Based View, Corporate Sustainability, Financial Performance

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INTRODUCTION

In today's rapidly evolving business landscape, firms must navigate a complex web of economic, technological, and regulatory challenges to sustain their competitive advantage and ensure long-term profitability. Corporate governance, risk management, and business ethics play a crucial role in shaping firm performance in this dynamic environment. Effective corporate governance structures establish clear accountability, transparency, and responsibility mechanisms, fostering investor confidence and financial stability (Aguilera & Cuervo-Cazurra, 2009). Similarly, risk management has become a strategic imperative for firms, enabling them to mitigate potential threats while capitalizing on emerging opportunities (Rijken & Fraser, 2023). Business ethics, as a fundamental component of corporate culture, influences decision-making processes and organizational behavior, contributing to a firm's reputation and stakeholder trust (Ferrell & Ferrell, 2021). The interplay between these three dimensions—corporate governance, risk management, and business ethics—shapes a firm's overall performance, impacting fin ancial outcomes, operational efficiency, and market positioning.

Corporate governance frameworks have undergone significant transformations in response to high-profile corporate scandals and financial crises. Regulatory bodies and policymakers have emphasized the importance of governance mechanisms that enhance board accountability, stakeholder engagement, and corporate transparency (Claessens & Yurtoglu, 2013). The integration of ethical principles into governance practices fosters an environment of integrity and social responsibility, which can lead to sustainable growth. Risk management, on the other hand, has evolved from a compliance-focused function to a strategic initiative aimed at identifying, assessing, and mitigating risks in a proactive manner. Firms that prioritize risk management are better equipped to navigate uncertainties and achieve resilience in volatile markets (Hoyt & Liebenberg, 2011). Furthermore, ethical business conduct not only strengthens a firm's reputation but also influences customer loyalty, employee engagement, and investor trust (Trevino & Nelson, 2021).

Despite the recognized importance of corporate governance, risk management, and business ethics, there is ongoing debate regarding their collective impact on firm performance. While some studies suggest that strong governance and ethical practices lead to superior financial performance (García-Sánchez et al., 2021), others argue that compliance with governance and ethical standards may impose additional costs on firms, potentially reducing short-term profitability (Klein, 2002). Additionally, the role of risk management in firm performance varies across industries and organizational structures, highlighting the need for a more nuanced understanding of its influence. As businesses continue to operate in a digital and globalized economy, it is essential to explore the synergies between these factors and their implications for sustainable corporate success.

The modern business environment presents an array of challenges that require firms to adopt robust governance, risk management, and ethical frameworks. Despite regulatory advancements and increased corporate focus on these aspects, financial scandals, unethical business practices, and risk management failures continue to emerge across industries. The collapse of firms due to governance lapses, fraudulent activities, and inadequate risk controls raises concerns about the effectiveness of current corporate governance models and ethical frameworks. Furthermore, there is inconsistency in the empirical findings regarding the impact of governance, risk management, and ethics on firm performance. While some organizations achieve superior financial and operational outcomes through stringent governance and ethical policies, others struggle with regulatory burdens and increased compliance costs. This study aims to address this gap by examining the relationship between corporate governance, risk management, and business ethics in determining firm performance within the contemporary business landscape.

The primary objective of this research is to investigate the influence of corporate governance, risk management, and business ethics on firm performance in the modern business environment. Specifically, the study seeks to:

1. Assess the impact of corporate governance mechanisms on firm performance, focusing on board structure, transparency, and stakeholder engagement.
2. Examine the role of risk management practices in enhancing financial stability and operational efficiency.
3. Analyze the relationship between business ethics and corporate reputation, employee productivity, and customer trust.
4. Explore the interaction between corporate governance, risk management, and ethical considerations in shaping overall firm performance.

5. Provide actionable recommendations for businesses to optimize governance, risk management, and ethical practices to enhance sustainability and long-term growth.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

1. Corporate Governance and Firm Performance

Corporate governance refers to the system by which companies are directed and controlled, encompassing structures and processes that ensure accountability, transparency, and ethical behavior (Shleifer & Vishny, 1997). Effective corporate governance mechanisms, such as a well-structured board of directors, shareholder rights protection, and disclosure practices, contribute to better decision-making and enhanced firm performance (Gompers et al., 2003). Empirical studies suggest that firms with strong governance frameworks tend to exhibit superior financial performance, lower risk exposure, and improved stakeholder confidence (Claessens & Yurtoglu, 2013).

Board independence and diversity are two critical aspects of corporate governance that have been widely studied. Research indicates that independent directors enhance board oversight, reducing agency problems and promoting strategic decision-making that aligns with shareholder interests (Fama & Jensen, 1983). Additionally, diversity in board composition, including gender and professional background, has been linked to improved firm performance due to diverse perspectives and better risk management strategies (Adams & Ferreira, 2009). However, excessive governance regulations may impose compliance costs that could negatively impact financial performance (Klein, 2002).

Hypothesis 1 (H1): Strong corporate governance has a positive effect on firm performance.

2. Risk Management and Firm Performance

Risk management involves identifying, assessing, and mitigating financial, operational, and strategic risks to ensure business continuity and stability. Firms that implement proactive risk management practices can better navigate economic uncertainties and market volatility, leading to sustained financial performance (Hoyt & Liebenberg, 2011). Enterprise Risk Management (ERM) has emerged as a holistic approach to integrating risk assessment into corporate strategy, improving decision-making and resource allocation (Gordon et al., 2009).

The relationship between risk management and firm performance has been widely debated in the literature. Studies have shown that firms with comprehensive risk management frameworks tend to exhibit lower earnings volatility, higher profitability, and enhanced investor confidence (McShane et al., 2011). Moreover, firms that fail to implement adequate risk management measures may experience financial distress, reputational damage, and even bankruptcy (Pagach & Warr, 2011). While effective risk management contributes to stability, it requires substantial investment in technology, training, and compliance, which may impact short-term profitability.

Hypothesis 2 (H2): Effective risk management positively influences firm performance.

3. **Business Ethics and Firm Performance**

Business ethics refers to the principles and values that guide corporate decision-making and behavior. Ethical business practices are crucial in fostering stakeholder trust, maintaining corporate reputation, and ensuring regulatory compliance (Ferrell & Ferrell, 2021). Organizations that prioritize ethical conduct tend to build long-term relationships with customers, investors, and employees, leading to sustained competitive advantage (Trevino & Nelson, 2021).

Empirical studies have demonstrated that ethical leadership and corporate social responsibility (CSR) initiatives positively impact firm performance (García-Sánchez et al., 2021). Companies that engage in ethical practices tend to attract and retain high-quality talent, enhance brand loyalty, and mitigate risks associated with legal violations and public scandals (Donaldson & Preston, 1995). However, some scholars argue that excessive ethical regulations and compliance costs may burden firms, reducing short-term profitability (Orlitzky, Schmidt, & Rynes, 2003).

Hypothesis 3 (H3): Business ethics positively affects firm performance.

4. **Interrelationship Between Corporate Governance, Risk Management, and Business Ethics**

Corporate governance, risk management, and business ethics are interrelated constructs that collectively influence firm performance. Firms with strong governance structures are more likely to implement effective risk management strategies and uphold ethical standards (Beasley et al., 2005). Similarly, ethical firms tend to adopt responsible risk management practices, ensuring compliance with regulatory standards and fostering long-term sustainability (Eccles et al., 2012).

Research suggests that firms that integrate governance, risk, and ethics into their corporate strategy experience enhanced financial and operational performance (Arora & Sharma, 2016). For instance, firms that enforce ethical corporate governance policies tend to attract long-term investors, reduce litigation risks, and maintain stable financial performance (Jo & Harjoto, 2011). On the other hand, weak governance mechanisms, poor risk management, and unethical business practices often lead to corporate failures and reputational damage (Coffee Jr, 2005).

Hypothesis 4 (H4): The combined effect of corporate governance, risk management, and business ethics positively impacts firm performance.

METHODOLOGY

This study employs a quantitative research approach to examine the relationship between corporate governance, risk management, business ethics, and firm performance in the modern business environment. A cross-sectional research design is utilized to collect data at a single point in time from a sample of firms operating in various industries. This design is appropriate for assessing the impact of governance, risk, and ethical practices on firm performance, allowing for statistical analysis and generalization of findings (Creswell & Creswell, 2017).

The target population for this study comprises publicly listed companies across different industries. The sample is selected using a stratified random sampling technique to ensure representation across various sectors. A sample size of approximately 250 firms is determined based on prior research and statistical power analysis (Hair Jr et al., 2011). The inclusion criteria require firms to have publicly available financial reports, governance disclosures, and risk management statements to ensure data reliability.

Primary and secondary data sources are utilized in this study. Primary data is collected through structured surveys distributed to senior executives, board members, and risk management officers. The survey includes Likert-scale questions measuring corporate governance practices, risk management strategies, and ethical considerations. Secondary data is obtained from financial reports, corporate governance disclosures, and sustainability reports available through company websites and financial databases such as Bloomberg and Thomson Reuters (Bell et al., 2022).

The study measures the independent variables, including corporate governance, risk management, and business ethics. Corporate governance is assessed through board composition, independence, transparency, and shareholder rights, following established governance indices (Gompers et al., 2003). Risk management is evaluated by examining the adoption of enterprise risk management (ERM), risk reporting quality, and compliance with risk management frameworks (Hoyt & Liebenberg, 2011). Business ethics is measured through ethical leadership, corporate social responsibility (CSR) engagement, and ethical decision-making frameworks (Ferrell & Ferrell, 2021). The dependent variable, firm performance, is evaluated using both financial indicators, such as return on assets (ROA), return on equity (ROE), and Tobin's Q, as well as non-financial measures, including brand reputation and employee satisfaction (Sánchez-Iglesias et al., 2024).

Data analysis techniques include both descriptive and inferential statistical methods. Descriptive analysis is used to summarize the demographic and financial characteristics of the sampled firms. Correlation analysis assesses the relationships between corporate governance, risk management, business ethics, and firm performance. Multiple regression analysis examines the predictive power of the independent variables on firm performance, while controlling for factors such as firm size, industry type, and market conditions (Hair Jr et al., 2017). Structural equation modeling (SEM) is employed to test the hypothesized relationships and assess the overall model fit (Byrne, 2001). To ensure the reliability of the survey instrument, Cronbach's alpha is used, with a threshold of 0.70 considered acceptable (Nunnally & Bernstein, 1994)v. Construct validity is confirmed through factor analysis, while content validity is reviewed by experts in corporate governance and risk management (Bagozzi & Yi, 2012).

RESULT

1. Descriptive Statistics

Table 1 presents the descriptive statistics for the key variables, including corporate governance, risk management, business ethics, and firm performance. The mean, standard deviation, minimum, and maximum values are reported.

Table 1. Descriptive Statistics

Variable	Mean	Std. Dev	Min	Max
Corporate Governance	3.85	0.76	2.10	5.00
Risk Management	3.72	0.82	2.00	5.00
Business Ethics	3.90	0.74	2.30	5.00
Firm Performance (ROA)	8.45	2.36	4.10	15.30

The results indicate that corporate governance, risk management, and business ethics have relatively high mean scores, suggesting that the sampled firms maintain good governance, risk practices, and ethical standards. Firm performance, measured by ROA, has a mean value of 8.45%, reflecting moderate profitability levels across firms.

2. Correlation Analysis

Table 2 shows the Pearson correlation coefficients among the study variables.

Table 2. Correlation Analysis

Variable	Corporate Governance	Risk Management	Business Ethics	Firm Performance
Corporate Governance	1.000	0.632**	0.589**	0.478**
Risk Management	0.632**	1.000	0.610**	0.520**
Business Ethics	0.589**	0.610**	1.000	0.490**
Firm Performance	0.478**	0.520**	0.490**	1.000

All independent variables (corporate governance, risk management, and business ethics) are positively correlated with firm performance. The highest correlation is between risk management and corporate governance ($r = 0.632$, $p < 0.01$), indicating that firms with strong governance structures tend to have better risk management practices. Business ethics also shows a significant positive correlation with firm performance ($r = 0.490$, $p < 0.01$), suggesting that ethical practices contribute to organizational success.

3. Multiple Regression Analysis

Table 3 presents the results of the multiple regression analysis to assess the impact of corporate governance, risk management, and business ethics on firm performance.

Table 3. Multiple Regression Analysis

Variable	Coefficient (β)	Std. Error	t-Statistic	p-Value
Constant	3.210	1.125	2.85	0.005**
Corporate Governance	0.295	0.085	3.47	0.001**
Risk Management	0.322	0.078	4.13	0.000**
Business Ethics	0.274	0.082	3.34	0.001**
R-squared	0.543	-	-	-
Adjusted R-squared	0.534	-	-	-
F-Statistic	45.72	-	-	0.000**

The regression model explains 54.3% of the variance in firm performance (Adjusted $R^2 = 0.534$). All three predictors—corporate governance ($\beta = 0.295$, $p < 0.01$), risk management ($\beta = 0.322$, $p < 0.01$), and business ethics ($\beta = 0.274$, $p < 0.01$)—are statistically significant, indicating a positive impact on firm performance. The F-statistic (45.72, $p < 0.001$) confirms that the model is a good fit.

4. Structural Equation Modeling (SEM) Analysis

Table 4 provides the SEM results, showing the direct and indirect effects of governance, risk, and ethics on firm performance.

Table 4. Structural Equation Modeling (SEM) Analysis

Path	Standardized Coefficient	p-Value
Corporate Governance → Firm Performance	0.301	0.002**
Risk Management → Firm Performance	0.337	0.001**
Business Ethics → Firm Performance	0.289	0.004**
Governance → Risk Management → Performance	0.198	0.010*
Governance → Ethics → Performance	0.175	0.015*

The SEM analysis confirms the direct positive effects of corporate governance, risk management, and business ethics on firm performance. Additionally, the indirect paths suggest that governance enhances performance by improving risk management ($\beta = 0.198$, $p < 0.05$) and ethical practices ($\beta = 0.175$, $p < 0.05$).

DISCUSSION

1. Overview of Findings

This study investigates the impact of corporate governance, risk management, and business ethics on firm performance in the modern business environment. The results confirm that all three independent variables significantly and positively influence firm performance. These findings align with previous literature and provide empirical support for the argument that strong governance structures, proactive risk management strategies, and ethical business practices contribute to superior financial and operational outcomes.

2. Corporate Governance and Firm Performance

The results indicate that corporate governance positively affects firm performance ($\beta = 0.295$, $p < 0.01$). This finding aligns with prior studies suggesting that firms with robust governance structures tend to perform better due to improved decision-making, enhanced transparency, and reduced agency problems ((Gompers et al., 2003); (Claessens & Yurtoglu, 2013)). The positive relationship between governance and performance implies that firms with independent boards, shareholder-friendly policies, and stringent oversight mechanisms are more likely to achieve long-term financial success.

Furthermore, the significant role of corporate governance suggests that regulatory bodies and policymakers should continue to strengthen governance frameworks. In particular, ensuring the independence of board members and fostering a culture of accountability can enhance firm performance. However, governance effectiveness may vary across industries and cultural contexts, necessitating a tailored approach to policy implementation (Aguilera & Jackson, 2010).

3. Risk Management and Firm Performance

Risk management also shows a strong positive relationship with firm performance ($\beta = 0.322$, $p < 0.01$). This result supports the argument that firms that actively manage risks—such as financial, operational, and strategic risks—are better positioned to navigate uncertainties and sustain growth (Hoyt & Liebenberg, 2011). The significance of risk management in this study aligns with findings by (McShane et al., 2011), who suggest that enterprise risk management (ERM) enhances organizational resilience and financial stability.

The findings highlight the importance of integrating risk management frameworks into corporate strategy. Organizations that proactively identify, assess, and mitigate risks are likely to experience higher investor confidence, reduced volatility, and improved profitability. In light of increasing global uncertainties, including economic downturns and geopolitical risks, firms should continuously refine their risk management approaches to enhance resilience.

4. Business Ethics and Firm Performance

The study reveals that business ethics significantly influence firm performance ($\beta = 0.274$, $p < 0.01$), which is consistent with prior research indicating that ethical practices contribute to long-term success ((Ferrell & Ferrell, 2021); (García-Sánchez et al., 2021)). Ethical firms tend to attract and retain customers, investors, and employees, leading to sustainable competitive advantages. Companies that prioritize ethical leadership, corporate social responsibility (CSR), and fair business practices often experience enhanced brand reputation and customer loyalty.

The results suggest that ethical behavior is not merely a compliance issue but a strategic asset that can drive financial performance. Firms should implement ethical guidelines, reinforce corporate values, and train employees to adhere to ethical standards. Moreover, organizations should consider integrating ethics into performance evaluation metrics to ensure alignment between ethical conduct and business objectives.

5. Theoretical Implications

The findings contribute to corporate governance, risk management, and business ethics literature by providing empirical evidence on their combined effect on firm performance. This study reinforces the resource-based view (RBV), which suggests that internal capabilities, such as governance structures, risk management expertise, and ethical culture, are critical drivers of firm performance (Barney, 1991). Additionally, the results align with stakeholder theory, emphasizing that firms should balance the interests of various stakeholders—including investors, employees, customers, and regulatory bodies—to achieve long-term success (Freeman, 2010).

Another theoretical implication is the validation of the enterprise risk management (ERM) framework, which posits that risk management integration enhances firm performance. The study's findings suggest that organizations that adopt ERM principles are more likely to achieve financial stability and operational efficiency (Beasley et al., 2005).

6. Practical Implications

From a managerial perspective, the results underscore the importance of strengthening corporate governance, improving risk management, and fostering an ethical corporate culture. Firms should prioritize transparency, stakeholder engagement, and strategic risk assessment to enhance performance. Additionally, organizations should invest in ethics training programs and establish mechanisms to monitor ethical conduct.

The study also has implications for policymakers and regulatory bodies. Given the positive relationship between corporate governance and firm performance, policymakers should encourage governance reforms that enhance board independence, shareholder protection, and disclosure requirements. Similarly, regulators should advocate for mandatory risk management practices, particularly in high-risk industries such as finance and manufacturing.

For investors, the findings highlight the importance of evaluating governance, risk management, and ethical practices when making investment decisions. Firms with strong governance and ethical foundations are likely to offer better long-term returns and reduced financial risks.

7. Limitations and Future Research Directions

Despite its contributions, this study has certain limitations. First, the cross-sectional design limits the ability to infer causality. Future research could employ a longitudinal approach to examine how corporate governance, risk management, and business ethics influence firm performance over time. Second, the study focuses on publicly listed firms, which may limit the generalizability of findings to small and medium enterprises (SMEs) and privately held companies. Future studies could explore whether similar relationships hold for different types of organizations.

Additionally, this study primarily relies on quantitative data. Future research could incorporate qualitative methods, such as interviews with executives and board members, to gain deeper insights into governance and risk management practices. Finally, cultural and industry-specific factors may influence the relationship between governance, risk, ethics, and performance. Comparative studies across different regulatory environments and economic contexts could provide a more comprehensive understanding of these dynamics.

CONCLUSION

This study confirms that corporate governance, risk management, and business ethics play a crucial role in shaping firm performance. The findings emphasize the need for firms to adopt strong governance structures, proactive risk management strategies, and ethical business practices to achieve sustainable growth. By integrating these elements into their strategic framework, organizations can enhance financial performance, strengthen stakeholder trust, and build long-term resilience in an increasingly complex business environment.

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