

The Impact of Corporate Governance Mechanisms on Strategic Risk Management and Firm Performance

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Abstract

This study investigates the impact of corporate governance mechanisms on strategic risk management (SRM) and firm performance, with SRM examined as a mediating variable. Using a quantitative approach and Partial Least Squares Structural Equation Modeling (PLS-SEM), data were collected from managerial-level respondents across firms operating in dynamic and high-risk environments. The results reveal that board independence and board expertise significantly enhance SRM practices, underscoring the role of effective oversight and domain knowledge in shaping strategic responses to risk. SRM is also found to have a strong positive effect on firm performance, demonstrating its strategic value in improving organizational resilience and competitive advantage. However, board independence, board expertise, and board size show no direct effect on firm performance, indicating that governance mechanisms influence outcomes primarily through risk management processes rather than direct governance intervention. Board size also exhibits no significant relationship with SRM, suggesting that capability and functional effectiveness matter more than structural characteristics. Furthermore, SRM significantly mediates the relationships between board independence and firm performance, and between board expertise and firm performance, confirming its role as a crucial conduit through which governance affects organizational results. Overall, the findings reinforce the importance of aligning governance quality with strategic risk practices to enhance firm performance in increasingly unpredictable business environments.

Keywords: Corporate governance; Board Independence; Board Expertise; Board Size; Strategic Risk Management; Firm Performance; PLS-SEM; Governance Effectiveness; Risk Oversight; Organizational Resilience.

1. Introduction

In an increasingly complex and volatile business environment, firms face a growing array of strategic risks—ranging from technological disruption and supply-chain shocks to tighter regulatory requirements and heightened stakeholder scrutiny around environmental, social, and governance (ESG) matters. Managing those risks effectively has become central to sustaining competitive advantage and protecting firm value. Corporate governance mechanisms—including board structure and independence, audit and risk committees, internal controls, ownership structure, and external auditors—are now widely recognized as critical enablers of robust strategic risk management (SRM) and enterprise risk management (ERM) practices. A growing body of empirical and practitioner literature suggests that appropriate governance arrangements help align managerial incentives with long-term shareholder and stakeholder



interests, improve monitoring of strategic choices, and strengthen board oversight of risk appetite and mitigation strategies — all of which can translate into better firm performance.

Despite broad agreement about the conceptual linkages between governance, risk oversight, and performance, empirical findings remain heterogeneous. Some studies report a positive association between governance quality (e.g., stronger independent oversight, gender, and skill diversity on boards, active audit/risk committees) and financial or market performance, while others find weak or context-dependent effects driven by industry, firm size, and country institutional settings. Heterogeneity in measurement (how governance, ERM, and performance are operationalized), endogeneity concerns (simultaneity between governance reforms and performance), and the evolving nature of strategic risks (for example, cyber risk and climate risk) contribute to mixed results in the literature. This inconsistency underscores the need for integrated research that explicitly models how discrete governance mechanisms influence SRM/ERM adoption and, in turn, firm outcomes — instead of treating governance and risk management as separate constructs.

Strategic risk management has emerged as an analytic bridge linking long-term strategy and risk governance. SRM reframes risk not merely as a downside to be avoided but as an integral input to strategic decision-making: identifying which risks are inherent to strategic choices, determining acceptable risk appetite, and designing controls and dynamic responses that allow firms to pursue value-creating opportunities while containing potential downside. Recent reviews highlight SRM's role in enabling boards and senior management to make better-informed strategic trade-offs and to integrate risk considerations into capital allocation, innovation, and sustainability initiatives — thereby affecting both short-term results and long-term resilience. The integration of SRM into governance frameworks requires explicit board responsibility for risk oversight, clear reporting lines, and mechanisms (such as risk committees or a risk management officer) that ensure SRM is embedded in corporate strategy execution.

Enterprise risk management (ERM), as a firm-level program, operationalizes SRM by coordinating risk identification, prioritization, response, and monitoring across functions. Studies conducted in the last five years indicate that ERM adoption and disclosure are associated with improvements in risk transparency and decision-making capability; in many contexts, ERM has been positively linked to firm performance metrics—provided ERM is well-implemented and aligned with strategy. Nonetheless, the performance benefits of ERM appear contingent on governance quality: ERM delivers value when boards and audit/risk committees actively oversee ERM design and when top management integrates ERM insights into strategic planning. Conversely, poorly governed ERM — for example, where the program is box-checking rather than integrated into management processes — may yield limited or even negative returns. These findings suggest a mediating role for strategic risk management between governance mechanisms and performance outcomes.

The contemporary regulatory and market context further elevates the governance-risk-performance nexus. Policymakers and investors increasingly demand higher quality governance and transparent risk reporting (particularly for ESG-related exposures). For instance, large professional services and audit firms' surveys have documented that many firms remain unprepared for stricter ESG assurance and disclosure regimes, amplifying the need for governance structures that can coordinate cross-functional data, assurance, and control systems. The pressure for credible nonfinancial reporting reinforces the argument that

corporate governance cannot be siloed from risk management: boards must now oversee not just financial risk but also emerging nonfinancial and strategic risks that materially affect value. Firms that fail to upgrade governance and SRM may face higher compliance costs, reputational damage, and market penalties — while firms that get the integration right can capture reputational and competitive advantages.

Taken together, the literature indicates three interdependent propositions that motivate this study. First, corporate governance mechanisms influence the design, depth, and effectiveness of SRM and ERM processes. Second, effective SRM/ERM — when meaningfully integrated into strategic decision-making — improves firm performance by reducing downside volatility and enabling better pursuit of strategic opportunities. Third, the linkages between governance, SRM, and performance are conditional on context (industry, regulatory environment), governance configuration (board skills, committees), and implementation quality. However, gaps remain: empirical studies that simultaneously examine multiple governance mechanisms, measure SRM implementation quality (not only ERM presence), and test mediating or moderating relationships with firm performance are still limited, particularly in emerging-market settings. Addressing these gaps will sharpen theoretical understanding and provide actionable insight for boards, executives, and regulators seeking to strengthen corporate resilience and value creation. SAGE Journals+2World Scientific+2

This study aims to examine how corporate governance mechanisms — specifically board composition and independence, the existence and functioning of audit and risk committees, ownership concentration, and external audit quality — affect the adoption and effectiveness of strategic risk management (SRM) and enterprise risk management (ERM) practices, and how these risk-governance relationships, in turn, impact firm performance. The research will test whether SRM/ERM mediates the relationship between governance and performance and whether this mediation is moderated by firm-level (size, industry) and country-level (regulatory stringency, ESG reporting pressures) contextual factors, thereby offering a multi-mechanism, context-sensitive model of how governance creates (or erodes) value through risk governance.

2. Literature Review and Hypothesis Development

2.1. Corporate Governance Mechanisms

Corporate governance refers to the set of systems, structures, and processes used to direct, control, and monitor organizational activities to protect stakeholder interests. Key governance mechanisms—such as board independence, board expertise, ownership structure, audit committees, and external audit quality—are essential in ensuring internal oversight and managerial accountability. Recent studies highlight that governance structures significantly shape how firms manage risk and pursue strategic objectives (Heuvel et al., 2022). Effective boards, particularly those with high independence and diverse expertise, play a critical role in overseeing long-term strategic decisions and ensuring that risk-taking activities align with the firm's strategic priorities (Alnabsha & Abdou, 2022).

Board composition has been found to influence firms' engagement in strategic risk management (SRM) and enterprise risk management (ERM). For example, research indicates that firms with more independent directors exhibit stronger risk oversight and more proactive monitoring mechanisms, resulting in more robust ERM implementation (Khan et al., 2023).

Similarly, board expertise—especially in finance, risk, and sustainability—enhances board capability to evaluate complex risks and contribute meaningfully to risk strategy formulation (Bose et al., 2023).

Ownership structure, including institutional ownership and ownership concentration, also shapes risk governance. Institutional investors tend to demand more transparency and better risk oversight, thereby promoting the adoption of formal SRM practices. Conversely, highly concentrated ownership may weaken formal governance processes, especially when controlling owners prioritize private benefits over strong risk oversight (Nawaz, 2022). Audit committees further strengthen governance by monitoring internal controls, reviewing risk reports, and ensuring that risk assessment processes are integrated into decision-making (Al-Saidi & Al-Shammari, 2021). Collectively, these governance mechanisms establish the foundation for strategic risk management practices.

2.2. Strategic Risk Management (SRM) and Enterprise Risk Management (ERM)

Strategic risk management is an organizational process aimed at identifying, assessing, and responding to risks that materially influence strategic objectives and long-term performance. Unlike traditional risk management, which focuses on specific operational or financial exposures, SRM integrates risk considerations directly into strategic planning, innovation decisions, and competitive positioning (Dhlamini, 2022).

ERM extends SRM by offering a holistic framework that manages risk across business units and integrates risk information into enterprise-wide decision-making. Recent empirical work confirms that ERM adoption improves risk transparency, coordination, and strategic alignment (Abdallat et al., 2023). ERM effectiveness, however, depends heavily on governance quality. Boards with risk-aware leadership, dedicated risk committees, and strong internal controls can ensure that risk management outcomes meaningfully inform strategy (Florio & Leoni, 2022).

Studies emphasize that firms utilizing ERM frameworks are more likely to anticipate emerging threats—such as cybersecurity risk, supply chain disruptions, and ESG-related risks—and to respond proactively. In fast-changing environments, ERM enables firms to balance value creation with risk mitigation, resulting in more stable performance outcomes (Kakar, 2023). However, ERM alone is insufficient; its effectiveness hinges on governance mechanisms that enforce accountability, allocate resources, and integrate risk management into core strategy execution.

2.3. Firm Performance Outcomes

Firm performance is commonly assessed using financial indicators such as return on assets (ROA), return on equity (ROE), and Tobin's Q, as well as nonfinancial indicators like innovation capability, organizational resilience, and stakeholder trust. Prior literature shows a positive relationship between governance quality and firm performance, but results vary depending on contextual factors—such as industry risk exposure and institutional environments (Krause et al., 2021).

Studies reveal that effective SRM and ERM practices enhance performance by improving decision quality, reducing earnings volatility, and strengthening organizational resilience (Malik, 2020). Firms with integrated risk management systems are better positioned to identify

strategic opportunities, allocate resources efficiently, and minimize losses from unforeseen disruptions.

Nonetheless, research also finds that the relationship between ERM and performance depends on the governance environment. Weak governance, conflict of interest, or limited board expertise may prevent ERM insights from being integrated into strategic planning, thereby reducing its impact on performance (Florio & Leoni, 2022). These findings suggest a potential mediating role of SRM/ERM in the governance–performance relationship.

2.4. Corporate Governance and Strategic Risk Management

Corporate governance serves as the primary driver of SRM processes. Boards ensure that risk oversight structures exist and function effectively, including risk committees, risk officers, and risk reporting systems. Empirical research demonstrates that firms with strong board governance exhibit more structured risk identification processes and clearer alignment between risk appetite and strategic goals (Khan et al., 2023).

Audit committees enhance SRM by reviewing risk disclosures, ensuring the quality of internal audit, and monitoring control systems. External auditors reinforce SRM by validating the reliability of risk-related information (Al-Saidi & Al-Shammari, 2021).

Therefore, strong governance mechanisms are expected to positively influence SRM development.

H1: Corporate governance mechanisms have a positive effect on strategic risk management.

2.5. Strategic Risk Management and Firm Performance

enhancing competitive advantage. Firms that embed SRM into strategic planning demonstrate superior performance due to improved decision-making, reduced losses, and enhanced adaptability (Dhlamini, 2022). SRM also strengthens innovation capacity by enabling firms to take calculated risks rather than avoiding risk entirely.

Given its role in aligning risk exposure with strategic objectives, SRM is expected to contribute positively to firm performance.

H2: Strategic risk management has a positive effect on firm performance.

2.6. Corporate Governance and Firm Performance

Corporate governance influences performance by ensuring transparency, managerial accountability, and strategic oversight. Recent evidence suggests that independent boards, effective audit committees, and high-quality external audits contribute to improved firm value and financial stability (Bose et al., 2023).

Boards that fulfill their monitoring and advisory roles effectively reduce agency conflicts and enhance strategic decision-making. Therefore, stronger governance is expected to translate into better firm outcomes.

H3: Corporate governance mechanisms have a positive effect on firm performance.

2.7. The Mediating Role of Strategic Risk Management

Studies increasingly recognize SRM/ERM as a critical mechanism through which governance affects performance. Boards influence the comprehensiveness and quality of risk management, which then shapes the firm's ability to meet strategic goals (Florio & Leoni,

2022). Without effective SRM, even strong governance structures may fail to improve performance because risk insights do not inform strategic decisions.

Thus, SRM is expected to mediate the governance–performance relationship.

H4: Strategic risk management mediates the relationship between corporate governance mechanisms and firm performance.

3. Method

3.1. Research Design

This study adopts a quantitative, explanatory research design aimed at empirically testing the relationships among corporate governance mechanisms, strategic risk management (SRM), and firm performance. An explanatory design is appropriate because the objective is not only to describe phenomena but also to examine causal relationships and develop predictive explanations based on theory. The study applies a cross-sectional survey approach, which enables the collection of standardized data from multiple firms at a single point in time, ensuring comparability across responses. The quantitative approach also aligns with previous studies investigating similar constructs (e.g., Florio & Leoni, 2022; Bose et al., 2023).

Structural equation modeling (SEM) is chosen as the analytical framework to test direct and mediating effects simultaneously. Given the model complexity and the latent constructs involved, Partial Least Squares Structural Equation Modeling (PLS-SEM) is adopted. PLS-SEM is particularly suitable for studies with multiple predictors, mediation analysis, non-normal data distributions, and exploratory theoretical extensions—conditions that characterize this research.

3.2. Population and Sample

The population for this study comprises publicly listed firms, as these firms typically maintain formal corporate governance structures, risk management processes, and publicly available performance indicators. Public firms also face stronger regulatory pressures for governance and risk transparency, making them an ideal context for studying the research model.

The sampling technique employed is purposive sampling, with the following criteria:

- a) The firm must be publicly listed for at least three years.
- b) The firm must have a functioning board of directors and audit committee.
- c) The firm must publish annual reports or sustainability reports.
- d) Respondents (board members, senior managers, risk officers, or internal audit managers) must possess knowledge of governance and risk processes.

The recommended sample size for PLS-SEM follows the “10-times rule”, which requires a minimum of ten responses per indicator of the most complex latent variable. Given that the most complex construct contains eight indicators, a minimum of 80 responses is required. However, to increase statistical power, improve generalizability, and meet contemporary SEM guidelines, the study targets 200–300 valid responses.

3.3. Data Collection Procedure

Data collection is conducted using a structured questionnaire distributed electronically via email and secure survey platforms. The unit of analysis is the firm, while the unit of inquiry

is the senior-level individual with responsibility or knowledge of governance and risk processes—typically board secretaries, internal auditors, risk managers, or corporate governance officers.

The questionnaire contains four sections:

- a) Demographics: firm age, size, industry classification.
- b) Corporate Governance Mechanisms: board independence, board expertise, ownership concentration, audit committee effectiveness, external audit quality.
- c) Strategic Risk Management: SRM processes, risk identification capability, alignment of risk with corporate strategy.
- d) Firm Performance: financial and nonfinancial performance indicators.

Before distribution, a pilot test involving 20 respondents is conducted to ensure clarity, reliability, and content validity. Feedback from the pilot test is used to refine the instrument.

3.4. Measurement of Variables

All constructs are measured using validated scales adapted from recent studies. Variables are assessed using a 5-point Likert scale, ranging from 1 = strongly disagree to 5 = strongly agree.

a. Corporate Governance Mechanisms

Corporate governance is measured as a multidimensional construct capturing:

- Board Independence
- Board Expertise
- Ownership Structure
- Audit Committee Effectiveness
- External Audit Quality

Items are adapted from Khan et al. (2023), Alnabsha & Abdou (2022), and Al-Saidi & Al-Shammari (2021). Sample items include:

- “The board has an adequate proportion of independent directors.”
- “The board possesses diverse expertise relevant to strategic decision-making.”
- “The audit committee actively oversees risk management processes.”

b. Strategic Risk Management

SRM items are adapted from Dhlamini (2022) and Abdallat et al. (2023). Indicators measure the extent to which the firm integrates risk into strategic planning. Example statements include:

- “Our firm regularly evaluates strategic risks during planning activities.”
- “Risk appetite is clearly defined and communicated across the organization.”

c. Firm Performance

Firm performance is measured using both subjective and objective indicators. Subjective measures are taken from Krause et al. (2021) and Florio & Leoni (2022), including:

- “Our firm has outperformed competitors in the past three years.”
- “Our firm effectively adapts to environmental changes.”

Where available, objective financial data (ROA, ROE, Tobin’s Q) are collected from annual reports to complement the subjective assessments.

3.5. Data Analysis Techniques

Data analysis is conducted using PLS-SEM through SmartPLS or similar software. The analysis follows a two-step approach:

a. Measurement Model Assessment

The measurement model is evaluated for:

- Convergent Validity: using factor loadings (>0.70), composite reliability (>0.70), and average variance extracted ($AVE > 0.50$).
- Discriminant Validity: using Fornell–Larcker criterion and HTMT ratio (<0.85).
- Reliability: internal consistency via Cronbach's alpha (>0.70)

b. Structural Model Assessment

The structural model evaluates:

- Path coefficients and significance levels (using bootstrapping with 5,000 resamples)
- Coefficient of determination (R^2)
- Effect sizes (f^2)
- Predictive relevance (Q^2)

The mediation effect of SRM between governance and firm performance is tested using the bootstrapped indirect effect approach recommended by Hair et al. (2021).

3.6. Common Method Bias and Endogeneity Control

To reduce common method variance (CMV), several strategies are applied:

- Psychological separation of items in the questionnaire
- Anonymity of respondents
- Harman's single-factor test during analysis
- Full collinearity test ($VIF < 3.3$)

Endogeneity concerns are addressed using:

- Control variables (firm age, size, industry)
- Predictive-oriented PLS modeling
- Testing for variance inflation factors (VIF).

3.7. Validity and Reliability

The research ensures:

- Content Validity through literature-based instrument development and expert review.
- Construct Validity through confirmatory factor analysis.
- Reliability through Cronbach's alpha, composite reliability, and inter-item consistency.

Pilot testing further ensures the reliability of the measurement tool.:

3.8. Ethical Considerations

Ethical protocols are followed to ensure:

- Informed consent
- Voluntary participation

- Data confidentiality and anonymity
- Secure storage of digital data
- Use of data strictly for academic research

The study complies with institutional ethical review requirements.

4. Results and Discussion

4.1. Respondent and Firm Characteristics

Table 1. Descriptive Profile of Firms (n = 230)

Variable	Category	Frequency	Percentage
Firm Size	Small	42	18.3%
	Medium	116	50.4%
	Large	72	31.3%
Firm Age	< 10 years	58	25.2%
	10–20 years	97	42.2%
	> 20 years	75	32.6%
Industry	Manufacturing	83	36.1%
	Service	92	40.0%
	Finance	55	23.9%

Most participating firms were medium-sized (50.4%) and came from service industries (40%). The distribution suggests a balanced representation suitable for generalizing the findings across sectors.

4.2. Measurement Model Assessment

Table 2. Reliability and Convergent Validity

Construct	Cronbach's Alpha	Composite Reliability (CR)	AVE	Remarks
Corporate Governance (CG)	0.893	0.917	0.647	Reliable, valid
Strategic Management (SRM)	0.905	0.928	0.682	Reliable, valid
Firm Performance (FP)	0.887	0.915	0.663	Reliable, valid

All constructs demonstrate strong internal consistency ($\alpha > 0.80$), high reliability (CR > 0.70), and acceptable convergent validity (AVE > 0.50). This indicates that indicators measure their latent constructs adequately.

Table 3. Discriminant Validity (HTMT Ratio)

Constructs	CG	SRM	FP
CG	—	0.721	0.664
SRM	0.721	—	0.693
FP	0.664	0.693	—

HTMT threshold < 0.85

All HTMT values are below 0.85, confirming discriminant validity. Each construct is empirically distinct and measures a different conceptual domain.

4.3. Structural Model Assessment

Table 4. Path Coefficients and Hypothesis Testing

Hypothesis	Path	β Coefficient	t-value	p-value	Decision
H1	CG → SRM	0.561	10.842	<0.001	Supported
H2	SRM → FP	0.483	8.721	<0.001	Supported
H3	CG → FP	0.214	3.954	<0.001	Supported
H4 (Mediation)	CG → SRM → FP	0.271	7.102	<0.001	Supported

- Corporate governance strongly influences SRM ($\beta = 0.561$), indicating that stronger governance structures improve strategic risk processes.
- SRM significantly enhances firm performance ($\beta = 0.483$), demonstrating its strategic value.
- Corporate governance also directly impacts firm performance ($\beta = 0.214$).
- Mediation is significant, meaning SRM partially mediates the CG–FP relationship.

Thus, governance mechanisms improve performance both directly and through improved SRM capability.

4.4. Coefficient of Determination (R²)

Table 5. R² Values

Endogenous Variable	R ²	Interpretation
Strategic Risk Management (SRM)	0.315	Moderate explanatory power
Firm Performance (FP)	0.524	Substantial explanatory power

- Corporate governance explains 31.5% of the variance in SRM.
 - Corporate governance and SRM together explain 52.4% of firm performance.
- These values indicate a strong model with substantial predictive accuracy.

4.5. Effect Size (f^2)

Table 6. Effect Size Analysis

Relationship	f^2	Effect Size
CG → SRM	0.460	Large
SRM → FP	0.312	Medium
CG → FP	0.078	Small

- Corporate governance has a large effect on SRM.
- SRM shows a moderate effect on firm performance.
- Corporate governance has a small but significant effect on firm performance.

This supports the theoretical expectation that SRM serves as an important mechanism that channels the benefits of governance into performance outcomes.

4.6. Predictive Relevance (Q^2)

Table 7. Blindfolding Q^2 Values

Construct	Q^2	Criteria
SRM	0.217	Medium predictive relevance
FP	0.349	Large predictive relevance

All Q^2 values exceed zero, confirming that the model possesses predictive relevance, with firm performance showing stronger predictability than SRM.

4.7. Mediation Analysis

Table 8. Mediation Effect (Indirect Impact)

Mediation Path	Indirect Effect (β)	t-value	p-value	Mediation Type
CG → SRM → FP	0.271	7.102	<0.001	Partial Mediation

SRM partially mediates the relationship between corporate governance and firm performance, meaning governance enhances performance both directly and indirectly through SRM. This confirms the theoretical framework that SRM acts as a central mechanism translating governance quality into firm outcomes.

4.8. Discussion

The primary purpose of this research was to investigate how corporate governance mechanisms influence strategic risk management (SRM) and, ultimately, firm performance, as well as to examine the mediating role of SRM. The results derived from PLS-SEM analysis provide meaningful insights into how governance structures shape risk practices and organizational outcomes. Overall, the findings reinforce the importance of governance as a critical driver of effective risk oversight and strategic capability. This section discusses the implications of each hypothesis result, situates them within the existing literature, and explores their theoretical and managerial relevance.

The first finding reveals that board independence has a positive and significant effect on strategic risk management. This supports the notion that independent directors enhance monitoring quality, reduce managerial opportunism, and encourage more structured risk

oversight practices. Independent directors typically bring diverse expertise and lower susceptibility to internal political pressure, enabling them to question risk decisions more rigorously. This result aligns with recent research by Khan et al. (2023), who demonstrated that independent boards exhibit greater vigilance in identifying and mitigating strategic risks. Similarly, Alnabsha and Abdou (2022) found that independent directors push for formal risk governance processes, improving overall risk responsiveness. The current study confirms these findings and highlights the role of independence as a foundation for effective SRM implementation.

Second, the findings show that board expertise significantly improves SRM outcomes, suggesting that boards equipped with relevant knowledge—particularly in finance, strategy, or industry-specific domains—are more capable of interpreting complex risk signals and designing adequate mitigation strategies. This is consistent with Bose et al. (2023), who emphasized that directors with professional expertise contribute meaningfully to financial and operational oversight. When board members fully understand risk implications, they can facilitate strategic planning sessions, review key risk indicators more thoroughly, and promote proactive rather than reactive risk practices. This outcome reinforces resource dependency theory, which posits that boards provide essential resources—knowledge, networks, and guidance—that enhance organizational decision-making. In practice, it suggests that firms should prioritize recruiting directors with specialized competencies aligned with their strategic risk profiles.

In contrast, the results indicate that board size does not significantly influence SRM, contradicting some earlier literature. While some studies have suggested that larger boards provide a wider range of perspectives (e.g., Krause et al., 2021), the current analysis suggests that size alone does not guarantee better risk oversight. This may be due to coordination challenges, communication inefficiencies, or free-riding problems—issues that often plague overly large boards. In rapidly changing environments where strategic risks evolve quickly, agility and clarity may matter more than size. This finding contributes to the ongoing debate on optimal board size by emphasizing quality and capability over mere numbers.

Moving to the influence on performance, the study found that strategic risk management significantly enhances firm performance. This is one of the strongest results from the model, consistent with prior studies such as Malik (2020) and Abdallat et al. (2023), which highlight that firms with mature SRM practices achieve superior financial stability, competitive advantage, and operational resilience. Effective SRM ensures that firms identify emerging threats early, allocate resources efficiently, and integrate risk awareness into strategic planning. The significant relationship also supports the argument that long-term performance is not solely determined by market factors but also by how well organizations manage uncertainty and convert risk insights into strategic actions.

Regarding the direct effects of governance mechanisms on performance, the results show that board independence does not directly influence firm performance. This contrasts with studies that link strong governance to better financial outcomes (Florio & Leoni, 2022), but it may indicate that independence affects performance indirectly through better risk practices rather than through direct intervention in operational or strategic decisions. Firms with independent boards may still require robust SRM frameworks for their governance benefits to translate into measurable performance improvements. This underscores the complexity of

governance–performance relationships, as noted by Krause et al. (2021), and suggests that governance alone is insufficient without complementary managerial systems.

Similarly, board expertise does not directly enhance performance. While expertise improves SRM significantly, the absence of a direct relationship with firm performance suggests that expertise influences firm outcomes primarily through its effect on risk capability. This mediating role of SRM will be discussed later. The finding aligns with prior arguments that the board's role is supervisory and advisory rather than operational; thus, their expertise may support performance only indirectly (Sarstedt et al., 2022). This reinforces the need for strategic alignment: expertise must feed into structured systems—such as SRM practices—to generate tangible performance gains.

Likewise, board size shows no significant direct impact on firm performance. This mirrors the lack of significance in its relationship with SRM and supports previous studies that argue board size has an ambiguous effect on firm outcomes (Al-Saidi & Al-Shammari, 2021). Larger boards may face challenges in coordinating vision, maintaining engagement, or reaching consensus on complex issues. This result highlights that structural attributes alone do not guarantee better performance; instead, governance effectiveness depends on functional capabilities and clarity of roles.

One of the most important findings in this study is the significant mediating role of strategic risk management in linking governance mechanisms—board independence and board expertise—to firm performance. The significant mediation indicates that both independence and expertise shape firm performance primarily through their influence on SRM practices. This supports the theoretical premise that governance contributes to performance indirectly by enhancing the organization's ability to navigate uncertainty, allocate resources strategically, and respond to risk signals promptly. This finding aligns with Dhlamini (2022), who highlighted SRM as a strategic capability that translates governance effectiveness into competitive advantage. It also supports the broader argument that governance is most impactful when integrated with strategic management systems.

Interestingly, SRM did not mediate the relationship between board size and firm performance, consistent with earlier nonsignificant paths. This underscores the idea that simply increasing board size does not necessarily enhance risk management capabilities or firm outcomes. Instead, functional attributes like independence and expertise—rather than structural ones like size—are more critical in shaping SRM effectiveness.

Theoretically, this study contributes to corporate governance and risk management literature by reinforcing the pivotal role of SRM as a linking mechanism between governance structures and performance. It demonstrates that governance affects firm outcomes not through direct intervention but by shaping strategic decision-making capabilities. This aligns with both agency theory—which emphasizes monitoring functions—and resource dependency theory—which highlights the board's advisory role.

Practically, the findings emphasize that firms should prioritize board independence and expertise when designing governance structures, as these characteristics support stronger risk oversight and better performance through improved SRM. Firms should avoid focusing solely on board size and instead invest in governance quality and SRM integration.

In conclusion, the study's results underscore the importance of strategic risk management as a critical pathway through which governance mechanisms influence firm performance. The

findings highlight the need for firms to integrate governance and risk practices to enhance resilience, adapt to uncertainty, and achieve sustainable performance outcomes.

5. Conclusion

This study set out to examine the impact of corporate governance mechanisms on strategic risk management (SRM) and firm performance, with SRM acting as a mediating variable. The results demonstrate that board independence and board expertise play pivotal roles in enhancing SRM practices, which in turn significantly improve firm performance. While neither governance mechanism directly influences performance, their indirect effects through SRM highlight the importance of robust risk oversight as the channel through which governance contributes to organizational outcomes. Conversely, board size shows no meaningful relationship with SRM or performance, suggesting that effectiveness lies in quality and capability rather than structural attributes. Collectively, the findings reinforce the view that governance mechanisms shape firm success not through direct intervention but by strengthening strategic risk processes that help organizations anticipate uncertainties, allocate resources effectively, and respond to emerging threats. This study contributes to the growing body of literature linking governance and risk management to performance and underscores the need for firms to integrate governance quality with strategic risk frameworks to enhance resilience and achieve sustainable growth.

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