Propose Framework: How is the Influence of Culture-Moderated Corporate Governance on the Implementation of Enterprise Risk Management in Companies?

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Abstract: *Corporate Governance (CG) is a core concept in modern corporate strategy, especially in the banking industry. This article examines the relationship between implementing CG, Enterprise Risk Management (ERM), and organizational culture in the banking context. The research background details the impact of technological change, globalization, and transactions on enterprise risk management challenges. Lack of adequate governance was a significant cause of corporate bankruptcies and financial crises, particularly the 2008-2009 crisis. The research explains how effective CG implementation can influence ERM and how organizational culture is crucial in aligning ERM with the company's internal values and norms. This proposed research framework shows that effective CG positively impacts the company, creating a solid foundation for managing risks wisely. A positive organizational culture is also a critical factor in ERM effectiveness. Harmonious integration between CG, ERM, and organizational culture is the primary key to achieving full effectiveness of ERM implementation. It was found that good governance creates benefits such as integrated risk management, clear leadership structures, openness, robust oversight systems, compliance, reputational benefits, risk-based decision-making, and an emphasis on innovation.*

INTRODUCTION

Corporate Governance (CG) is a core concept in modern corporate strategy. Rapid changes in technology, globalization, and transactions have increased the challenges for financial institutions in managing corporate risk. A proactive approach to good governance is needed to identify potential threats and opportunities (Beasley et al., 2023). Good governance is the key to facing challenges and exploiting opportunities in unpredictable markets. Global financial crises, such as those in 2008-2009, significantly changed corporate governance and risk management practices (Conyon et al., 2011). Studies show that inadequate governance is a significant cause of corporate bankruptcies and financial crises (Rajab & Schachler, 2009; Yeoh, 2010) . The Organization for Economic Cooperation and Development (OECD) report by Kalia and Gill (2023) confirmed that failures in corporate governance contributed to the financial crisis.

Deficiencies in governance related to the 2008-2009 financial crisis include risk management, remuneration systems, board practices, shareholder rights, and transparency and disclosure, as identified by Srivastava (2015)and Gennaro and Nietlispach (2021). The board of directors is considered the first line of defence in corporate governance (Adams & Mehran, 2003; Hermalin & Weisbach, 2001), but before the crisis, risk control was compromised due to a lack of risk understanding by the board of directors of financial institutions (Hesarzadeh & Bazrafshan, 2019). Management that focuses on high accountability and transparency can build stakeholder trust. The relationship between management, board of directors, and shareholders is crucial in corporate governance. Studies after 1990 took a comprehensive view of risk management, known as corporate risk management (Cumming & Hirtle, 2001; Fernandes et al., 2021; Kalia & Gill, 2023; Miller, 1992). Apart from governance, organizational culture factors are crucial in shaping a company's performance. Factors such as innovation, risk development, attention to detail, results orientation, people orientation, team orientation, aggressiveness, and steadiness all form part of the foundation of an organization. According to Dhyana Putra and Asri Dwija Putri (2020), organizational culture can be a high or low driving force that directly influences employee performance and satisfaction. Therefore, the better a company's organizational culture, the better employee performance and satisfaction.

Dynamic developments require improvements in corporate governance and culture. A risk management framework, such as the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Enterprise Risk Management (ERM), is needed to minimize the impact of risk and improve a company's ability to recognize and respond to emerging risks (The Institute of Internal Auditors, 2017). COSO ERM enables the integration of risk management in operational aspects, supporting informative management decisions (Febrianti & Novita, 2021; Hardjomidjojo et al., 2022). A deep understanding of risks and their interactions allows companies to allocate resources more efficiently, improve operations, and achieve strategic goals effectively. Organizational culture and corporate governance form a strong business management foundation (Kimbrough & Componation, 2009). A positive organizational culture, such as transparency and open communication, supports the flow of information and informational decision-making (Majeed et al., 2021).

On the other hand, good corporate governance can shape, direct, and strengthen organizational culture. Clear policies and procedures and an efficient organizational structure create the operational foundation for maintaining the desired culture. Effective corporate governance can also prevent unethical practices or violations of company values.

Cultural diversity on the board of directors has a diverse impact on company performance. Research shows that cultural diversity can positively affect international business expansion. At the same time, this diversity is also associated with increased human resource development and better governance practices, which can improve corporate performance (Humphries & Whelan, 2017; Li et al., 2018). In addition, the presence of a mix of different cultures on the board of directors can stimulate innovation, creativity, and managerial efficiency, with direct or indirect impacts on company performance (Nawaz Khan et al., 2019; Wang et al., 2020).

Dynamic developments require improved corporate governance and culture, so a risk management framework such as COSO ERM is needed. COSO ERM supports the establishment of strong corporate governance with an integrated approach to identifying, evaluating, managing, and monitoring risks as a whole (The Institute of Internal Auditors, 2017). Implementing COSO ERM enables the integration of risk management into every aspect of operations, increasing efficiency and helping to achieve strategic goals(Febrianti & Novita, 2021; Hardjomidjojo et al., 2022).

Solid governance provides a solid foundation for an effective risk management strategy, creating a clear structure for identifying, assessing, and managing risks (Febrianti & Novita, 2021). However, the role of organizational culture as a moderating factor is crucial in aligning ERM with the company's internal values and norms (Karanja, 2017). A positive and innovative culture can strengthen the effectiveness of ERM, while a culture that needs to be aligned can hinder ERM implementation, even though governance has been implemented well. In this context, governance and culture work together to drive ERM success. Governance provides the structural foundation, while culture is a catalyst that strengthens ERM adaptation following corporate values. Harmonious integration between governance and organizational culture is the primary key to achieving full effectiveness of ERM implementation, ensuring optimal protection against risks and the long-term sustainability of the company (Mukhibad et al., 2022).

CG is a core concept in modern corporate strategy, closely related to the banking industry. Rapid technological changes, globalization, and financial market transactions have increased financial institutions' challenges in managing corporate risk. The success of corporate governance in the banking industry is closely related to effective risk management, appropriate remuneration systems, transparent board of directors practices, respected shareholder rights, and adequate openness and disclosure (Mashitoh & Irma, 2013). Before the crisis, boards of directors were considered the first line of defence in corporate governance. However, a lack of risk understanding by financial institutions' boards of directors led to compromised risk controls. Management focusing on high accountability and transparency is the key to building stakeholder trust (Nam & Lum, 2006).

Governance, risk management, and organizational culture are crucial in shaping a company's performance in the banking industry. Cultural factors such as innovation, risk development, transparency, and open communication become integral to an organization's foundation (Duong et al., 2016) . A positive organizational culture supports the flow of information and informational decision-making, along with good corporate governance. Dynamic developments in the banking industry demand continuous governance and corporate culture improvements. Risk management frameworks, such as COSO ERM, are crucial to minimizing the impact of risk and improving a company's ability to recognize and respond to emerging risks. Solid governance and a positive organizational culture drive successful ERM implementation in this context. Harmonious integration between governance and organizational culture is the primary key to achieving effective ERM implementation, ensuring optimal protection against risks and the long-term sustainability of companies in the banking sector. The following research aims to provide information regarding the application of governance, which influences the implementation of ERM. Also, it provides a view on culture, which influences corporate governance in implementing ERM in the banking industry.

In this discussion, effective CG implementation positively impacts companies, especially in the banking industry. CG creates a solid foundation to ensure enterprise continuity and reliability, opening the door to significant benefits from ERM implementation. A solid relationship between CG and ERM helps companies in the banking sector manage risks wisely, involve related parties, and ensure compliance with regulations. In addition, implementing an influential culture directly impacts the effectiveness of corporate governance and ERM implementation. Some of the priorities' cultural elements include transparency, collaboration, innovation, social and environmental responsibility, and conformity with company values.

THEORETICAL BASIS

1. Corporate Governance

Corporate Governance (CG) is the rules and structure that form the basis of business operations involving the interests of shareholders. CG includes rules to ensure the company follows a specific code and is well-directed. (du Plessis et al., 2018)The traditional role of CG is to protect shareholder investments from opportunistic managers (Roberts & Van den Steen, 2000). However, in recent years, CG has increasingly included oversight of a company's impact on society and the environment, in line with shareholder demands and regulatory evolution (Iansiti & Levien, 2004).

Likewise, the evolution of corporate sustainability is seen as a response to the company's goals, evolving regulations, improving product quality, and a positive image in the eyes of increasingly environmentally sensitive consumers (Poddar et al., 2019) . Seen initially as corporate social responsibility, sustainability is now more integrated into companies' overall business models (Fernando et al., 2019) . In addition, CG plays a crucial role in managing corporate risks. The board of directors must ensure that management has an effective process for identifying, prioritizing, managing, and monitoring risks, and this often involves establishing a risk management committee. A Chief Risk Officer (CRO) may also be appointed to ensure the continuity of the risk management process (Hock et al., 2019).

2. Organizational culture

Organizational culture includes employees' views on how an organization operates, not just whether they like or dislike the culture. It involves shared perceptions held by all members of an organization, including the norms and values that guide their behaviour (Isensee et al., 2020) . Organization members try to conform to this culture to be accepted in the work environment. Organizational culture is also described as a consistent method of responding to internal and external challenges, passed on to new members as the correct way to understand, think, and respond to related problems. (Dhyana Putra & Asri Dwija Putri, 2020). This is a system of values, norms, assumptions, or rules that have been implemented, agreed upon, and followed by organizational members as a guide in behaving and overcoming organizational problems.

3. Risk Management

Risk management is a series of steps a company takes to identify, evaluate, manage, and control potential risks to minimize negative impacts and ensure the achievement of company goals (Hock et al., 2019; Zain, 2022). According to COSO ERM, risk management involves the integration of culture, capabilities, and practices related to corporate strategy to manage risk and increase corporate value (Gleim Publications, 2021; Zain, 2022) . Risk management provides several benefits, including increased value for shareholders, reduced likelihood of surprises, improved cost control, better strategic planning, reduced operational disruption, more efficient use of resources, increased ability to achieve goals, and built trust from employees and stakeholders through transparency and sound risk management.

4. COSO ERM Components and Principles

Implementing the COSO ERM framework requires companies to incorporate risk management into overall strategy and performance. The five main elements in COSO ERM are interrelated, creating an effective risk management system.

Figure 1. COSO ERM Framework
Source: COSO, 2017

The first aspect, governance, and culture, involves establishing a solid organizational structure and building ethical values. The second component, strategy and goal setting ensures alignment of risk management with the strategic plan, including determining risk capacity, appetite, and tolerance. The third component focuses on identifying and assessing risks that may hinder the achievement of strategic objectives. As the fourth component, the review and revision process involves periodic evaluation of the effectiveness of risk management and adjustments according to significant changes. The final component, information, communication, and reporting, emphasizes the importance of conveying risk information effectively throughout the organization (Gleim Publications, 2021; Hock et al., 2019; Insitute et al., 2022; Zain, 2022) . Implementing COSO ERM is not just a matter of checklists; it also creates an environment where risk management becomes integral to every aspect of company operations.

PROPOSED RESEARCH FRAMEWORK

1. Conceptual Framework

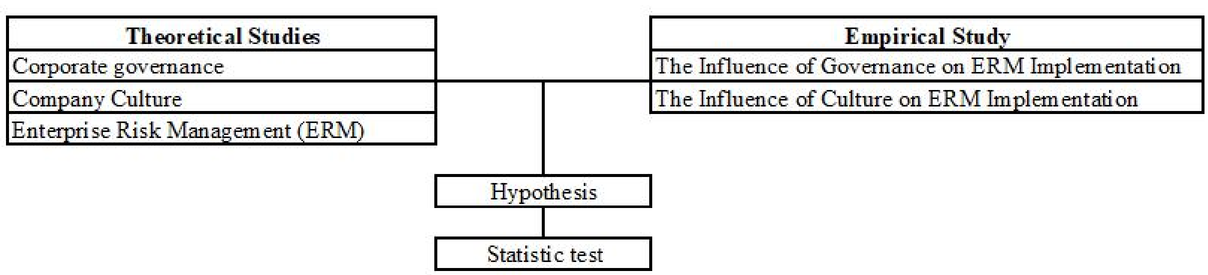

Figure 2. Thinking Process Framework

Research is a crucial aspect in the development of science and education and plays a vital role in the progress of human civilization. Science can only develop with research, and developed countries are always involved in research activities. Studies show that research contributions have a higher value than their costs. According to the Big Indonesian Dictionary, research is a systematic and objective activity to solve problems or test hypotheses to develop general principles. This research is quantitative, with the initial step of creating a research design as a strategy to achieve research objectives. This method produces findings using statistical or quantification procedures, focusing on variables in human life with specific characteristics.

2. Research Conceptual Framework

According to the study, the following is an image of the conceptual framework where the governance implementation variable as an exogenous (independent) latent variable directly influences the enterprise risk management (ERM) implementation variable. Meanwhile, the cultural implementation variable is an intervening (mediation) variable between the implementation of governance and indirectly influences the implementation of ERM. The ERM implementation variable is an endogenous (dependent) variable that depends on implementing governance and corporate culture.

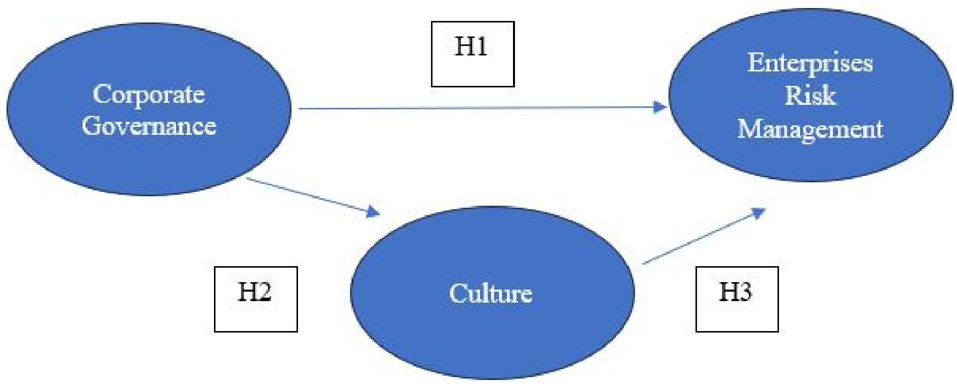

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Figure 3. Conceptual Framework

3. Relationship Between Variables

3.1 The Relationship between the Implementation of Governance and the Implementation of ERM

Based on research conducted by Mohd Sanusi et al. (2017), producing effective governance implementation will result in an effective ERM process. Likewise, research (Sudirman et al., 2021) on the variable implementation of good governance provides positive results on implementing ERM, which can improve company performance. Based on this description, the hypothesis proposed is as follows:

H1: The establishment of corporate governance will have an influence on the implementation of ERM in the company

3.2 The Relationship between Implementing Governance and Corporate Culture

Research conducted (Daneshmandnia, 2019) analyses the influence of corporate culture to provide information regarding effective governance. The results of this research state that a good culture will provide an effective governance process. This is also reinforced by research conducted (by Duong et al., 2016), stating that implementing good governance will also have an excellent cultural influence on the company. Based on this description, the hypothesis proposed is as follows:

H2: The implementation of governance influences company culture

3.3 The Relationship between the Implementation of Culture as Part of Governance and the Implementation of ERM

Research conducted by Majeed et al. (2021) shows that the variable application of culture significantly influences company performance. Selamat and Ibrahim (2018) also researched the influence of culture, where cultural variables influence leadership in organizations and the ERM implementation process. According to Research by Hassan et al. (2022) , strict organizational culture variables will positively influence good risk governance. Based on this description, the hypothesis proposed is as follows:

H3: Forming an influential culture will moderate the influence of governance on ERM implementation in the company.

4. Hypothesis

Based on the background, theoretical review, previous research, and research model, the hypothesis proposed in this research is:

a. The establishment of good governance will have an influence on the implementation of ERM in the company
b. The implementation of governance influences the company's culture
c. Forming an influential culture will moderate the influence of governance on ERM implementation in the company.

RESULTS AND DISCUSSION

Effective CG implementation positively impacts companies, especially in the banking industry. As one of the main pillars of the global economy, the banking industry requires a solid foundation to ensure its continuity and reliability. Effective implementation of CG is the primary key to achieving this goal, opening the door to significant benefits from implementing ERM in the banking industry. Effective corporate governance and CG support effective ERM implementation in the banking industry. The following are further details regarding the importance of implementing CG and its benefits on ERM in the banking sector:

1. Integrated risk management In a good CG structure, there is clarity regarding risk management governance. The board of directors and relevant committees ensure the ERM process is effectively integrated at all company levels (Bogodistov & Wohlgemuth, 2017).
2. Clear leadership structure. CG provides a framework for determining the roles and responsibilities of each entity in the company. The board of directors and committees are essential in setting the strategy and overseeing ERM implementation, ensuring a clear leadership structure in managing risk (Adams et al., 2010).
3. Openness and involvement of related parties. Implementing good CG encourages transparency in reporting risks to related parties, including shareholders, regulators, and other interested parties. This ensures that risk information can be easily accessed and provides external parties with a good understanding of how the company manages its risks (Hermawan & Novita, 2021).
4. Strong monitoring system. CG emphasized the importance of a robust monitoring system by the board of directors. This oversight includes monitoring ERM implementation and ensuring that risks are identified and managed proactively to prevent adverse impacts (Santos et al., 2023).
5. Compliance with regulations. In the highly regulated banking industry, CG helps companies comply with regulations and compliance standards. ERM can be specifically directed to ensure that all activities that have the potential to cause risk of regulatory violations are identified and managed properly (Soetedjo & Sugianto, 2018).
6. Benefits of reputation and trust. Good CG can improve a company's reputation. Stakeholders' interests, such as customers and investors, are often closely related to the company's image and reputation. With good governance, companies can overcome reputation risks and

maintain the trust of various parties (JOHN et al., 2008).

7. Risk-based decision making. Effective CG creates a corporate culture that encourages risk-based decision-making. This involves the entire organization in risk management and helps it make better risk decisions (Permatasari, 2020).
8. Emphasis on innovation and sustainable growth. With good governance, companies can focus on innovation and sustainable growth. ERM helps identify opportunities and risks associated with new initiatives, enabling companies to grow by minimizing unnecessary risks (Abraham et al., 2019).

Solid integration between CG and ERM creates a solid foundation for companies in the banking sector to manage risks wisely, involve related parties, and ensure compliance with regulations. This, in turn, increases the company's resilience in facing economic challenges and market uncertainty.

For example, Bank Central Asia (BCA) is one of the leading banks in Indonesia that has implemented good CG practices. BCA's board of directors and committees are essential in monitoring and ensuring compliance with CG principles. This includes establishing policies that support transparency, accountability, and regulatory compliance. Implementing ERM at BCA is very important to identify, measure, and manage the risks faced by the bank. ERM is integrated into the organizational structure, with close oversight from the board of directors and risk committee. A clear leadership structure and defined responsibilities help ensure that risks are identified and managed effectively.

BCA upholds transparency and reporting. Financial reports and related information are routinely provided to shareholders and the public, reflecting transparency practices in line with CG principles. This report also includes information regarding risks and management efforts to manage them, supporting effective ERM practices. Reputation is a valuable asset in the banking industry, and BCA understands the importance of maintaining and enhancing its reputation. Good CG practices and effective ERM help build customer and stakeholder trust. The CG principles applied at BCA encourage risk-based decision-making. Management decisions regarding investment, expansion, or strategic change are based on a deep understanding of the risks that may be faced and the steps to manage them.

The banking industry relies on formal policies and procedures and is heavily influenced by corporate culture. Implementing an influential culture directly impacts the effectiveness of corporate governance and ERM implementation. In the banking sector, this linkage is significant to create an environment that is healthy and responsive to business challenges.

1. Build a culture of transparency and compliance. A culture of transparency creates an environment where employees feel comfortable reporting and addressing risks openly. Implementing compliance values at all levels of the organization becomes more accessible in a culture that prioritizes integrity and accountability. In the banking industry, where regulations are stringent, this culture supports strict corporate governance measures and increased implementation of more effective ERM (Daneshmandnia, 2019; Savović, 2017).
2. Encourage collaboration and communication. A collaborative and communicative culture facilitates the exchange of information between work units and management levels. In an ERM context, where risks can emerge from various parts of the organization, collaboration strengthened by an open culture enables comprehensive risk identification. Effective communication also plays a vital role in understanding and managing risks quickly and efficiently (Kimbrough & Componation, 2009; Marchalina et al., 2021).
3. The driver of innovation and learning. A culture of innovation and learning creates space for

controlled risk-taking. In an ever-changing banking industry, identifying and managing new risks is critical. Employees who feel encouraged to innovate can contribute to developing solutions to emerging risks. This culture also encourages learning from failure, supporting continuous improvement in ERM implementation (ALEQEDAT et al., 2022; Selamat & Ibrahim, 2018; Thomya & Saenchaiyathon, 2015).

4. Social and environmental responsibility. A culture that reflects social and environmental responsibility helps banks identify risks related to social responsibility and environmental impacts. This creates an environment where companies seek to manage reputational risk by considering every decision or policy's social and environmental consequences. Effective ERM implementation considers financial risks and social and environmental impacts (Albahri et al., 2023; Marchalina et al., 2021).
5. Conformity with company values. The importance of a culture that aligns with corporate values lies in the seamless integration of corporate governance and ERM. A culture aligned with company values creates consistency in decision-making and daily actions. This encourages employees to act according to the company's goals and values, creating alignment that supports the holistic implementation of governance and ERM (Duong et al., 2016; Isensee et al., 2020).

Through strengthening corporate culture, the banking industry can create a strong foundation for managing risk effectively, building stakeholder trust, and delivering long-term value. The right culture creates an environment where implementing governance and ERM is not just a formal policy but becomes an integral part of thinking and acting at all levels of the organization.

Within the scope of Bank Central Asia (BCA), influential corporate culture must be addressed in strengthening corporate governance and implementing ERM. One of Indonesia's leading banks, BCA, shows how corporate culture can form a solid foundation for successful governance and risk management. BCA emphasizes a culture of transparency and compliance as its main pillars. BCA creates a trusted environment that complies with banking regulations by opening access to information about company policies, finances, and risks. This builds customer trust and ensures compliance with applicable ethical standards and regulations.

Furthermore, the culture of collaboration and communication at BCA strengthens the exchange of information between departments and management levels. Collaboration strengthened by this open culture provides critical support for comprehensive risk identification, supports more effective ERM implementation, and makes responses to changing market conditions or regulations more responsive. BCA also creates a culture of innovation and learning that encourages employees to try new solutions for managing risk. Strengthened learning and training programs help employees better understand risks and drive innovative initiatives to mitigate emerging risks. BCA views failure as a learning opportunity, creating an environment where employees feel supported to innovate.

Regarding social and environmental responsibility, BCA integrates these values into its business. Support for social initiatives and environmental activities reflects awareness of banking activities' social and environmental impacts. BCA looks at financial risks and social and environmental impacts as an integral part of implementing sustainable ERM. Lastly, BCA ensures that every step aligns with the company's values. Consistency in making investment decisions, formulating employee policies, and handling risks creates a company image that has integrity and is in line with firmly held values. By implementing this influential corporate culture, BCA creates an environment that supports good corporate governance and effective ERM implementation, providing long-term benefits for the company and all stakeholders.

CONCLUSION

From the previous discussion, effective CG implementation positively impacts companies, especially in the banking sector. CG creates a solid foundation to ensure company sustainability and reliability, opening up opportunities for significant benefits from implementing ERM. A solid link between CG and ERM helps companies in the banking sector manage risks wisely, involve related parties, and ensure compliance with regulations.

The previous discussion emphasized several essential aspects related to the influence of CG on ERM implementation. For example, good CG clarifies risk management governance with the Board of Directors and relevant committees responsible for overseeing and ensuring ERM integration at all company levels. In addition, a clear leadership structure established by CG, particularly by the Board of Directors and committees, helps ensure effective risk management. CG also encourages openness in risk reporting to stakeholders and related parties, creating a transparent environment.

In addition to the influence of CG, corporate culture also has a direct impact on the effectiveness of corporate governance and ERM implementation. An influential culture includes transparency, collaboration, innovation, social and environmental responsibility, and alignment with company values. A concrete example from Bank Central Asia (BCA) shows that a transparent corporate culture, open to collaboration, encouraging innovation, and having social and environmental responsibility can strengthen corporate governance and effective ERM implementation. BCA views this corporate culture as integral to long-term success, creating an environment that supports corporate sustainability and builds stakeholder trust.

Future research should also include the challenges and obstacles faced in implementing CG and ERM. Exploring how to address or mitigate these issues will provide a deeper understanding of the realities of implementation. Moreover, the influence of changes in the external environment, such as changes in regulations or economic conditions, must be considered so that companies can become more responsive to changing dynamics. Suggestions for further research can lead to more effective engagement of related parties, including employees, customers, and regulators. Examining how interactions with related parties can increase the success of CG and ERM initiatives will enrich a holistic risk management perspective. In this context, observing how employee development can play a crucial role in ensuring a better understanding of CG and ERM principles is essential.

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