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The role of risk governance in ethical decision-making: A comparative study of corporate failures and successes

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Abstract
Independent board supervision, risk-aware management, ethical governance, compliance with regulations and data-based decision making. Through a qualitative comparative case study approach, this work offers practical guidance for building corporate governance infrastructure. Conclusions also support corporate ethical improvements, accountability, and crisis prevention.

Keyword: Risk governance, ethical decision-making, corporate failures

Introduction
Corporate collapses frequently reveal shortcomings in governance frameworks, resulting in ethical and financial scandals. Risk the system through which organizations discover, analyze and ameliorate risk an essential force behind corporate decisions. This paper examines the intersection of risk governance and ethical decision-making, comparing case studies of corporate failures and successes to extract best practices and lessons learned.

Key Research Questions
1. And how does this factor into corporate ethical conduct and decision-making?
2. What regulatory mechanisms inhibit risk failures in high-impact sectors such as insurance and banking?
3. What lessons can be learned from corporate failures and successes to enhance future risk governance models?

Literature Review
Theoretical Foundations of Risk Governance
Risk governance is based on agency theory, stakeholder theory, and an ethical decision framework. Studies by Beasley *et al.* (2015) [1] emphasize the role of enterprise risk management (ERM) in building corporate resilience, and Ferrell *et al.* Risk management failure raises the ethical issues in (2019) [2]. Nevertheless, discussions continue about the degree to which regulatory oversight is appropriate to guide corporate risk governance. Although, there are some researchers, who believe that, restriction of regulations increases accountability, others believe they can limit innovation and risk-taking (Power, 2009) [7].

Gaps in Existing Research
Despite the extensive literature on risk governance, gaps remain in understanding the interplay between ethical leadership and governance structures. Existing studies have mainly concentrated on the financial sector, neglecting industries with high risk and thus including high-risk non-financial sectors (Lins, Servaes, Tamayo, 2017) [8]. Further, empirical evidence for a link between board composition and long-term corporate sustainability, beyond the prevention of temporary crisis (Adams, Hermalin, Weisbach, 2010) [9] is minimal.

Comparative Case Studies

Corporate Failures

Wirecard AG

Wirecard's collapse in 2020 stemmed from fraudulent accounting practices, weak regulatory oversight, and a failure in internal risk governance. Even with external reviews, the absence of independent board reviews enabled the unchecked progression of unethical decision-making (Zetzsche *et al*., 2021) [3]. This case exemplifies the risks associated with excessive executive control and regulatory arbitrage.

Silicon Valley Bank (SVB)

SVB's 2023 failure was as a result of inadequate risk management, excessive concentration on interest rate risk, and insufficient stress testing, respectively. Unlike other financial institutions, SVB failed to integrate risk indicators with strategic decision-making, demonstrating the importance of a forward-looking governance approach (Eisenbach *et al*., 2023) [4].

Corporate Successes

Prudential Financial and Allianz

These companies employ: These companies employ:

- **Independent Risk Committees:** Key oversight authorities guarantee responsibility and review financial, operational, and compliance risks.
- **Scenario Analysis and Stress Testing:** Regular evaluations of economic downturn scenarios strengthen resilience.
- **Ethical Leadership Programs:** Reinforce decision-making integrity and a strong corporate culture.
- **Regulatory Engagement:** Active collaboration with regulators ensures adaptability to governance standards.

JPMorgan Chase

JPMorgan Chase's success is attributed to: JPMorgan Chase's success is attributed to:

- **Risk-Aware Culture:** Encouraging risk awareness across all levels fosters accountability.
- **Liquidity and Capital Management:** High reserves buffer against financial shocks.
- **AI-Driven Risk Assessment:** Advanced analytics proactively detect governance threats.
- **Independent Board Oversight:** Guarantees alignment of executive actions with ethical and risk governance principles.

Methodology

A qualitative case study with a method of multiple case studies integrating approaches with data collection consisting of corporate reports, regulatory enforcement actions, financial statements, and interviews with experts was used. Case selection criteria included:

- **Relevance:** Cases with significant governance failures or successes.
- **Impact:** Cases influencing stakeholders and regulatory reforms.
- **Comparability:** Cases selected for governance structure and decision-making contrasts.

Data Collection and Analysis

Sources of information included governance reports, regulatory documents, and risk professional interviews. Data was coded using thematic analysis:

- **Triangulation:** Cross-referencing multiple sources to validate findings.
- **Inter-Coder Reliability:** Independent coding by multiple researchers.
- **Expert Review:** Validating findings through industry experts.

Findings and Discussion

How Governance Mechanisms Work in Practice

1. **Independent Board Oversight:** Effective boards test management by questioning both risk exposure and financial planning.
2. **Ethical Leadership:** Companies reinforce ethical decision-making through leadership training and whistleblower protection.
3. **Proactive Risk Management:** Continuous stress testing and scenario planning reduce the risk of financial recession.
4. **Data-Driven Decision-Making:** When reliant on AI-based risk models, governance failures are identifiable and detected at an early stage.
5. **Regulatory Compliance:** Active collaboration with regulators ensures adherence to evolving governance standards.

Ethical Culture in Governance

A strong ethical culture is defined by:

1. **Clear Codes of Conduct:** Formal policies guiding ethical decision-making.
2. **Whistleblower Protections:** Secure channels to report misconduct without retaliation.
3. **Tone from the Top:** Leadership commitment to ethical business practices.
4. **Regular Ethical Audits:** Independent assessments ensuring compliance with corporate governance principles.

Limitations

1. **Case Study Scope:** Focus on banking and insurance limits broader applicability.
2. **Expert Interview Bias:** Subjectivity in professional perspectives may influence findings.
3. **Data Availability Constraints:** Reliance on publicly available reports may limit depth of analysis.

Conclusion and Recommendations

Key Takeaways

A strong risk governance system promotes ethical decision-making, and corporate sustainability.

Robust institutional frameworks facilitate crisis prevention by regulating, and applying ethics and proactivity in risk mitigation.

- Ethical corporate cultures drive accountability and responsible risk-taking.

Actionable Recommendation

1. Strengthening Board Oversight: Establishing independent risk committees to monitor governance integrity.
2. AI-Driven Risk Management: Leveraging technology for predictive risk analysis.
3. Ethical Leadership Development: Implementing continuous leadership ethics training.
4. Regular Stress Testing: Ensuring preparedness for financial disruptions.
5. Regulatory Collaboration: Taking an active proactive stance with regulators regarding anticipated changes to governance.

Future Research Directions

1. **Expanding Industry Scope:** Applying findings to non-financial sectors.
2. **Quantitative Validation:** Using statistical models to measure governance effectiveness.
3. **Cybersecurity and ESG Risks:** Examining governance frameworks for emerging corporate risks.

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