


# Chapter 1

## Financial Risk and Corporate Governance: A Bibliometric Analysis


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### ABSTRACT

*This chapter intends to contribute to the analysis of the influence of corporate governance (CG) practices on company financial risk (FR) to understand the current state of CG and FR research. Although there is extensive research on CG and FR, to the best of the authors' knowledge, no recent study tries to update the current state of the research over the influence of CG practices on FR. To do so, the authors will conduct a bibliometric analysis focused on financial risk and CG studies resorting to different online available libraries. The study describes the evolutional research studies published in the digital libraries Scopus and Web of Science between 2010 and 2020 and compares the results obtained in evolutionary terms. The study ends up concentrating the bibliometric analysis in the Scopus and Web of Science databases and the keyword "financial risk," leading to a total of 14,942 and 3,760 documents, respectively.*

### INTRODUCTION

No bibliometric research should start without previously defining what the main subject under analysis is. The study concentrates on financial risk (FR) and corporate governance (CG) articles published in

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the recent years of 2010-2020. Companies are experiencing many different types of risk, such as risks associated with the business environment, laws and regulations, operational efficiency, the organization's reputation, as well as with financial risks. As well, what is FR? Financial risks create the possibility of losses arising from the failure to achieve financial objectives. Companies are exposed to financial risk in their day-by-day activities, and the respective consequences, that can affect their earnings, returns, and value. Several types of risk, such as market risk, model risk, credit risk, liquidity risk, operational risk, and risk of disclosure compose the financial risk.

Market risk is the risk of loss due to unexpected changes in market prices or liquidity, including all balance sheet risks (Schroeck, 2002). Also, it refers to the unpredictable price changes of the different commodities, goods, stocks, or other financial instruments that may determine possible losses. The market risk, caused by the overall change in market conditions, is composed of four factors of risk: the equity risk, the interest rate risk, the currency risk, and commodity risk (Salomons & Grootveld, 2003). The model risk quantifies the consequences of using the wrong models in risk measurement, pricing, or portfolio selection (Jokhadze & Schmidt, 2018). The credit risk arises when there is a potential that a borrower may be unable to fulfill their obligations to repay funds borrowed from the financial institution (Putri, Bunga & Rochman, 2021). Liquidity risk is associated with the inability of banks to fulfill their maturing obligations that come from funding sources of cash flows or from high-quality liquid assets and, consequently, the assets cannot be converted immediately into cash. The operational risk is the risk that a company faces due to their operational activities, internal systems, and processes that are not perfect, meaning no way could eliminate the operational risks (Girling, 2013). Finally, companies face disclosure risks when readers of firms' reports are informed about opportunities or prospects, hazards, losses, threats, or exposures that will affect the company (Linsley & Shrivess, 2006).

This chapter intends to analyze the state-of-art in what concerns the FR and their consequences on firms, by trying to understand how the literature has researched the topic in recent years. By doing this through a bibliometric analysis, the authors can find the current stage of this phenomenon.

In addition, and respecting the book title, the authors have an additional section relating to FR and CG's present state of research. As such, it is intended to present the state of the current literature regarding research on FR and CG. In this context, this chapter intends to contribute to the analysis of the influence of CG practices on companies' FR, namely financial risk disclosure and financial distress risk, conducting a bibliometric analysis focused on FR risk and CG studies resorting to different online available libraries, offering proposals for further research considering what is the current state-of-the-art. Indeed, the bibliometric analysis allows us to analyze the scientific evolution in a certain topic of research, while it enlightens us on emerging subjects in the same field of investigation (Donthu et al., 2021). The first document researching under the keyword "financial risk" was published in 1964 according to our bibliometric research.

The rest of this chapter is organized as follows. Section two presents a brief literature review on the FR and CG topics. Section three presents the general status of FR and CG research from 2010 to 2020. Section four concludes this chapter.

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