The Influence of Good Corporate Governance Mechanisms on Financial Performance Mediated by Financial Risk

Yovita Putri Aprilia, Nur Anisah*
ITEBIS PGRI Dewantara Jombang, Jln. Prof. Muh. Yamin No 77, Jombang, 61471, Indonesia
e-mail: pyovita057@gmail.com, nur_anisah@itebisdewantara.ac.id
*Corresponding author: nur_anisah@itebisdewantara.ac.id

Abstract: *This research examines the impact of Good Corporate Governance (GCG) mechanisms on financial performance, with financial risk acting as a mediating variable, in banking firms listed on the Indonesia Stock Exchange (IDX) for the 2022–2024 period. The study is motivated by the crucial role of effective corporate governance in ensuring sustainable banking performance amid dynamic global economic developments. A quantitative approach with a causal research design was employed. The sample consisted of banking companies selected using purposive sampling, based on the availability of complete financial reports and consistent disclosure of GCG practices. Secondary data were collected from published annual reports and financial statements. The data were analyzed using multiple linear regression and path analysis to assess both direct and indirect relationships among the variables. The findings demonstrate that GCG mechanisms exert a positive and significant influence on financial performance. In addition, financial risk has a negative effect on financial performance and serves as a partial mediator in the relationship between GCG and financial performance. These results suggest that the effective implementation of GCG not only enhances financial performance directly but also indirectly through improved financial risk management. This study is expected to provide valuable insights for company management, investors, and regulators in reinforcing corporate governance practices and maintaining stability within the banking industry.*

Key Words: *Good Corporate Governance, Financial Performance, Financial Risk*

Introduction

The banking sector plays a crucial role in maintaining economic stability, particularly during the 2022–2024 period, which is characterized by post-pandemic recovery and global financial uncertainty. This situation requires banks to strengthen their oversight and risk management mechanisms to maintain stable performance (OJK, 2023). In this context, the implementation of Good Corporate Governance (GCG) is a necessary instrument to ensure transparent, accountable, and responsible decision-making (OECD, 2023).

According to Agency Theory, good governance is necessary to minimize conflicts of interest between owners and management (Jensen & Meckling, 2005). Several studies have shown that GCG can improve financial performance by suppressing opportunistic management behavior (Supriyanto & Novriyanti, 2024). However, other studies have found that some GCG components have no significant effect on profitability, reflecting inconsistencies in empirical findings (Rahma & Arisman, 2022).

Another variable that could potentially explain the differences in findings is financial risk. Financial risk reflects a company's ability to meet financial obligations and manage operational uncertainty. Research by (Jesslyn Jesslyn, Mariska Ramadana, & Anita Anita, 2025) and (Dzulfian Syafrian, 2025) concluded that risk management plays a mediating role in the relationship between GCG and performance, as good governance tends to increase the effectiveness of risk control. In the banking industry, fluctuations in Return on Assets (ROA) during 2022–2024 indicate that changes in financial risk are a significant factor influencing performance.

Given this phenomenon, further research is needed to explain the relationship between GCG, financial risk, and financial performance. Therefore, this study aims to analyze the effect of Good Corporate Governance on financial performance, with financial risk as a mediating variable, in banks listed on the Indonesia Stock Exchange during the 2022–2024 period. The research findings are expected to strengthen the literature on the role of GCG and provide input for regulators and the banking industry in improving performance stability through effective risk management.

Theoretical Basis

Good Corporate Governance refers to a corporate governance framework that prioritizes the principles of transparency, accountability, responsibility, independence, and fairness, implemented through supervisory and control functions exercised by the board of commissioners, the board of directors, and the audit committee. Managerial and institutional ownership structures also strengthen control mechanisms to minimize agency conflicts. This study adopts the concept and measurement of GCG proposed by (Pujiati, 2013), and aligns with the OECD Principles of Corporate Governance and the General Guidelines for Good Corporate Governance from the National Committee for Standardization (KNKG). Theoretically, the relationship between GCG and financial performance is explained through Agency Theory by (Jensen & Meckling, 2005), which states that effective oversight mechanisms can reduce conflicts of interest between management and owners. The implementation of good governance encourages transparency and strengthens the monitoring function, resulting in more accountable decision-making and oriented towards the company's long-term interests. Financial risk describes the level of uncertainty that can trigger losses due to inappropriate financial decisions, particularly those related to the use of debt (Amendy, 2022).). In this study, financial risk is proxied using the Debt to Equity Ratio (DER), which reflects a company's level of leverage and dependence on external funding (Kasmir, 2019). A high DER value indicates increasing financial burdens, potentially stifling the company's stability and flexibility. Financial performance reflects a company's ability to manage resources to generate profits effectively (Reyner F, 2016) and is measured using Return on Assets (ROA), which indicates the efficiency of asset utilization in generating net income (Kusuma, 2021).

Several studies have shown that effective GCG mechanisms positively impact financial performance, particularly in the banking sector (Cahyaningrum, Titisari, & Astungkara, 2022) (Dewantoro & Suryono, 2022) (Munthe, Siboro, & Saribu, 2024). Institutional and managerial ownership structures have also been shown to strengthen the supervisory function and management discipline, thus positively impacting company performance (Rahma & Arisman, 2022). A report (OJK, 2023) also confirms that the quality of governance implementation is related to increased banking stability and profitability. High financial risk reflects a heavy reliance on debt, increases interest expenses, and increases the potential for financial distress, which can reduce profitability. In addition to its direct impact on performance, financial risk has also been shown to mediate the relationship between GCG and financial performance. (Dzulfian Syafrian, 2025) states that risk management is a mechanism that bridges the influence of governance on company performance. This result supports (Jesslyn Jesslyn et al., 2025) who showed that a strong corporate governance structure encourages more effective risk management, thus positively impacting financial performance. Based on this description, this study positions Good Corporate Governance as a strategic factor that influences financial performance, both directly and indirectly through financial risk as a mediating variable. Therefore, the implementation of strong governance and effective risk management are key to creating more stable and sustainable financial performance in the banking sector.

Method

This research adopts a quantitative methodological approach utilizing a causal explanatory design. The population comprises all banking institutions listed on the Indonesia Stock Exchange (IDX) during the 2022–2024 observation period. The research sample consists of 135 banking companies, selected through a purposive sampling technique based on predetermined criteria, including the availability and completeness of annual reports, consistency in the disclosure of Good Corporate Governance (GCG) information, and the absence of delisting status during the study period. The study utilizes secondary data sourced from published annual reports, audited financial statements, and corporate GCG reports. Data analysis was conducted through a series of classical assumption tests to ensure the validity of the regression model, followed by multiple linear regression analysis. The explanatory power of the model was evaluated using the coefficient of determination (Adjusted R^2), while hypothesis testing was carried out using both partial (t-test) and simultaneous (F-test) significance tests. Furthermore, path analysis was applied to assess the direct and indirect relationships among the independent, mediating, and dependent variables. All statistical analyses were performed using SPSS software.

Table 1. Operationalization of Variables

Variables	Indicator	Reference source
Good Corporate Governance	Total skor GCG = Σ (Score for each component × Weight) Weight: Commissioners 45%, Audit Committee 20%, Management 20%, Shareholders 15%	Pujiati (2013)
Financial Performance	ROA = Laba Bersih / Total Aset × 100%	Reyner F (2016)
Financial Risk	DER = Total Utang / Total Ekuitas	Kasmir (2019)

Results and Discussion

Classical Assumption Test

Based on the outcomes of the regression assumption diagnostics, all regression models applied in this study fulfilled the requirements of the Best Linear Unbiased Estimator (BLUE), thereby justifying their use for subsequent analyses. This is supported by the normality test results, which produced significance values of 0.057 for Equation 1 and 0.200 for Equation 2, both exceeding the 0.05 significance level, indicating that the residuals of the models are normally distributed. In addition, the multicollinearity test demonstrated that all independent variables exhibited tolerance values above 0.10 and Variance Inflation Factor (VIF) values below 10, suggesting the absence of multicollinearity among the explanatory variables. The heteroscedasticity test further indicated significance values greater than 0.05, implying that the residuals do not suffer from heteroscedasticity problems. Moreover, the autocorrelation test, as measured by the Durbin–Watson statistic, yielded values of 1.955 for Equation 1 and 1.749 for Equation 2, both of which fall within the acceptable range between dU and 4–dU. These results confirm that the regression and path analysis models employed in this research are free from autocorrelation. Consequently, it can be concluded that all classical assumptions have been satisfied, and the models are appropriate for hypothesis testing.

Coefficient of Determination (R^2)

• Equation 1 produces an R^2 value of 0.032, or 3.2%, indicating that the GCG variable can only explain 3.2% of the variation in financial risk (DER). The remainder is influenced by other factors outside the model.

• Equation 2 produces an R^2 value of 0.155, or 15.5%, meaning that GCG and DER together explain 15.5% of the variation in financial performance (ROA).

Partial Test (T Test)

Table 2. Partial Test Results (T Test) Equation 2

Coefficients[a,b]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.	Collinearity Statistics Tolerance	Collinearity Statistics VIF
1	(Constant)	-3.518	.952		-3.694	.000		
	GCG	10.378	2.611	.319	3.974	.000	1.000	1.000
	DER	-.093	.032	-.233	-2.898	.004	1.000	1.000

Interpretation

The test results indicate that the significance value of Good Corporate Governance (GCG) on Return on Assets (ROA) is 0.000, which is below the 0.05 significance threshold, with a regression coefficient of 0.319. At the 5 percent level of significance, this finding demonstrates that GCG exerts a positive and statistically significant influence on ROA. Furthermore, the significance value of the Debt to Equity Ratio (DER) on ROA is 0.004, which is also lower than 0.05, accompanied by a regression coefficient of −0.233. Accordingly, at the 5 percent significance level, it can be concluded that DER has a negative and statistically significant effect on ROA.

Simultaneous Test (F Test)

Table 3. Simultaneous Test Results (F Test) Equation 1

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.404	1	2.404	4.357	.039[b]
	Residual	72.834	132	.552		
	Total	75.238	133			

Interpretation

The significance value is 0.039 <0.05 with an F-statistic of 4.357. At a 5% significance level, the model is concluded to be significant and can be used.

Table 4. Results of the Simultaneous Test (F Test) for Equation 2

ANOVA[a,b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	35.792	2	17.896	11.973	.000[c]
	Residual	195.801	131	1.495		
	Total	231.592	133			

Interpretation

The significance value is 0.000 <0.05 with an F-statistic of 11.973. At a 5% significance level, it can be concluded that DER and GCG are equally significant in explaining ROA and the model can be used.

Linear Regression

Equation 1

Table 5. Linear Regression Test Results for Equation 1

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.004	.064		.067	.946		
	GCG	.157	.075	.179	2.087	.039	1.000	1.000

Interpretation

The significance value of GCG on DER is 0.039 <0.05, and the coefficient is 0.179. At a 5% significance level, it can be concluded that GCG has a positive and significant effect on DER.

Equation 2

Table 6. Results of Multiple Linear Regression Test Equation 2

Coefficients[a,b]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-3.518	.952		-3.694	.000		
	GCG	10.378	2.611	.319	3.974	.000	1.000	1.000
	DER	-.093	.032	-.233	-2.898	.004	1.000	1.000

Interpretation

The significance value of GCG on ROA is 0.000 <0.05, with a coefficient of 0.319. At a 5% significance level, it can be concluded that GCG has a positive and significant effect on ROA. The significance value of DER on ROA is 0.004 <0.05, with a coefficient of -0.233. At a 5% significance level, it can be concluded that DER has a negative and significant effect on ROA.

Path and Mediation Analysis

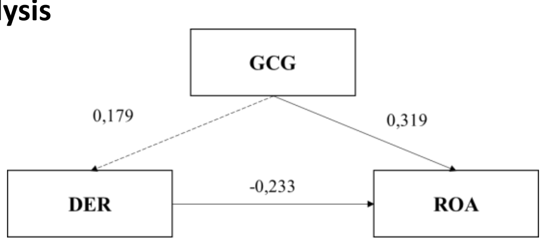

Figure 1. Path and Mediation Analysis

Table 7. Path and Mediation Analysis Results

Relationship Path	Regression Coefficient (Beta)	Significance (P-Value)	Description
Equation 1			
$GCG\ (X) \rightarrow DER(Z)$	0,179	0,039	Significant
Equation 2			
$GCG\ (X) \rightarrow ROA(Y)$	0,319	0,000	Significant
$DER\ (Z) \rightarrow ROA(Y)$	-0,233	0,004	Significant

Calculation of Direct, Indirect, and Total Effects

Based on the path analysis results, Good Corporate Governance (GCG) is shown to have a statistically significant direct effect on financial risk, as measured by the Debt to Equity Ratio (DER), with a path coefficient of 0.179. In addition, GCG also demonstrates a direct and significant influence on financial performance, represented by Return on Assets (ROA), with a coefficient of 0.319. Furthermore, financial risk (DER) exerts a significant direct effect on financial performance (ROA), with a coefficient of −0.233, indicating an inverse relationship between the two variables. Beyond these direct effects, GCG also affects ROA indirectly through DER as a mediating variable. The magnitude of this indirect effect is −0.042, which is derived from the product of the path coefficients for the GCG → DER and DER → ROA relationships. The negative value of this indirect effect suggests that higher financial risk tends to diminish the positive impact of GCG on financial performance.

Conclusion

The results of this study align with the findings of (Jesslyn Jesslyn et al., 2025) who concluded that Good Corporate Governance influences financial performance and that financial risk plays a role in mediating this relationship. These results further reinforce the evidence presented by (Dzulfian Syafrian, 2025) this study indicates that financial risk functions as a mediating variable in the relationship between Good Corporate Governance (GCG) and financial performance. Financial risk represented by the Debt to Equity Ratio, is found to partially mediate the effect of GCG on a firm’s financial performance.Theoretically, these results support the Agency Theory proposed by (Jensen & Meckling, 2005), which states that the implementation of GCG mechanisms serves as a control tool to minimize conflicts of interest between management and shareholders, limit opportunistic behavior, and encourage a more transparent and accountable decision-making process. Empirically, the better the implementation of GCG is proven to be able to improve financial performance as reflected through Return on Assets (ROA), while a higher level of financial risk actually shows a tendency to reduce the company's level of profitability. Thus, the results of the hypothesis testing in this study can be concluded as follows:

H1: Good Corporate Governance has a positive effect on financial performance – accepted.

H2: Good Corporate Governance has a positive effect on financial risk – accepted.

H3: Financial risk has a positive effect on financial performance – rejected, as it has been empirically proven to have a negative and significant effect.

H4: Financial risk mediates the effect between corporate governance mechanisms and financial outcomes – accepted with partial mediation.

Based on these results, it can be confirmed that the implementation of good corporate governance directly contributes to improving financial performance. However, through the indirect pathway, financial risk has been shown to mediate and diminish the positive impact of GCG on Return on Assets. Therefore, effective risk management needs to be implemented in a direction that is consistent with optimal GCG implementation to maintain the stability and sustainability of banking companies' financial performance. Further research is recommended to increase the variety of indicators, extend the research period, and expand the study objects in order to obtain more comprehensive results and have stronger generalizability.

References

Amendy, D. (2022). Pengaruh Keputusan Investasi, Risiko Keuangan dan Financial Performance terhadap Return Saham.

Cahyaningrum, S. P., Titisari, K. H., & Astungkara, A. (2022). Pengaruh Penerapan Good Corporate Governance dan Corporate Social Responsibility terhadap Kinerja Keuangan Perusahaan.

Dewantoro, R., & Suryono, B. (2022). PENGARUH GOOD CORPORATE GOVERNANCE TERHADAP KINERJA PERUSAHAAN PERBANKAN YANG TERDAFTAR DI BURSA EFEK INDONESIA Bambang Suryono Sekolah Tinggi Ilmu Ekonomi Indoensia (STIESIA) Surabaya. *Jurnal Ilmu dan Riset Akuntansi*, 1–21.

Dzulfian Syafrian, dkk. (2025). PERAN MANAJEMEN RISIKO MEMEDIASI PENGARUH GOOD CORPORATE GOVERNANCE TERHADAP KINERJA KEUANGAN (Studi Pada Perusahaan BUMN Di Indonesia).

Jensen, M. C., & Meckling, W. H. (2005). Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure.

Jesslyn Jesslyn, Mariska Ramadana, & Anita Anita. (2025). The Influence of Corporate Governance on Financial Performance With Bank Risk Taking As a Moderating Variable.

Kasmir. (2019). *Kasmir 2019.Pdf* (hal. 6–9). hal. 6–9.

Kusuma, M. (2021). Measurement of Return on Asset (ROA) based on Comprehensive Income and its Ability to Predict Investment Returns: an Empirical Evidence on Go Public Companies in Indonesia before and during the Covid-19 Pandemic.

Munthe, R. P., Siboro, D. T., & Saribu, A. D. (2024). Pengaruh Mekanisme Corporate Governance terhadap Kinerja Keuangan Perusahaan pada Sektor Perbankan Periode 2020-2022 yang. *Terdaftar Di BEI. AKADEMIK: Jurnal Mahasiswa Ekonomi & Bisnis*, *4*(1), 197–206.

OECD. (2023). G20/OECD Principles of Corporate Governance. In *OECD Publishing*.

OJK. (2023). Peraturan Otoritas Jasa Keuangan Republik Indonesia Nomor 17 Tahun 2023 Tentang Penerapan Tata Kelola Bagi Bank Umum. *Otoritas Jasa Keuangan*, (July), 1–23.

Pujiati, L. (2013). Pengaruh Konservatisme dalam Laporan Keuangan Terhadap Earnings Response Coefficien. *Journal Ilmu & Riset Akuntansi*, 449–464.

Rahma, J., & Arisman, A. (2022). Pengaruh Kepemilikan Institusional dan Kepemilikan Manajerial terhadap Kinerja Keuangan pada Perusahaan Perbankan yang Terdaftar di Bursa Efek Indonesia Tahun 2015-2019. *Universitas Medan Area*, *9*, 4383–4392.

Reyner F. (2016).

Supriyanto, S., & Novriyanti, N. (2024). Good Corporate Governance and Corporate Social Responsibility on Financial Performance Through Earning Management. *Jurnal Akuntansi*, *16*(1), 106–121.